

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

☒

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

For the quarterly period ended March 31, 2016

OR

☐

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

For the transition period from to

Commission File Number 001-35039

**THIRD POINT REINSURANCE LTD.**

(Exact name of registrant as specified in its charter)

Bermuda

98-1039994

(State or other jurisdiction of incorporation or  
organization)

(I.R.S. Employer Identification No.)

Point House  
3 Waterloo Lane  
Pembroke HM 08, Bermuda  
+1 441 542-3300

(Address, including Zip Code and Telephone Number, including Area Code of Registrant's Principal Executive Office)

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

|                         |                                     |                           |                          |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The registrant's common shares began trading on the New York Stock Exchange on August 15, 2013.

As of May 4, 2016, there were 106,285,663 common shares of the registrant's common shares issued and outstanding, including 1,924,266 restricted shares.

**Third Point Reinsurance Ltd.**

**INDEX**

|                                                                                               | <u>Page</u> |
|-----------------------------------------------------------------------------------------------|-------------|
| PART I. FINANCIAL INFORMATION                                                                 | <u>1</u>    |
| Item 1. Financial Statements                                                                  | <u>1</u>    |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>44</u>   |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                            | <u>61</u>   |
| Item 4. Controls and Procedures                                                               | <u>65</u>   |
| PART II. OTHER INFORMATION                                                                    | <u>65</u>   |
| Item 1. Legal Proceedings                                                                     | <u>65</u>   |
| Item 1A. Risk Factors                                                                         | <u>65</u>   |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                           | <u>65</u>   |
| Item 3. Defaults Upon Senior Securities                                                       | <u>65</u>   |
| Item 4. Mine Safety Disclosures                                                               | <u>65</u>   |
| Item 5. Other Information                                                                     | <u>65</u>   |
| Item 6. Exhibits                                                                              | <u>67</u>   |

**PART I - Financial Information**

**ITEM 1. Financial Statements**

**THIRD POINT REINSURANCE LTD.  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
As of March 31, 2016 and December 31, 2015  
(expressed in thousands of U.S. dollars, except per share and share amounts)**

|                                                                                                                    | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|--------------------------------------------------------------------------------------------------------------------|---------------------------|------------------------------|
| <b>Assets</b>                                                                                                      |                           |                              |
| Equity securities, trading, at fair value (cost - \$1,421,874; 2015 - \$1,156,369)                                 | \$ 1,483,076              | \$ 1,231,077                 |
| Debt securities, trading, at fair value (cost - \$1,199,710; 2015 - \$1,049,652)                                   | 1,185,102                 | 1,034,247                    |
| Other investments, at fair value                                                                                   | 49,965                    | 51,920                       |
| Total investments in securities                                                                                    | 2,718,143                 | 2,317,244                    |
| Cash and cash equivalents                                                                                          | 7,658                     | 20,407                       |
| Restricted cash and cash equivalents                                                                               | 316,923                   | 330,915                      |
| Due from brokers                                                                                                   | 424,205                   | 326,971                      |
| Derivative assets, at fair value                                                                                   | 26,877                    | 35,337                       |
| Interest and dividends receivable                                                                                  | 14,092                    | 10,687                       |
| Reinsurance balances receivable                                                                                    | 326,066                   | 294,313                      |
| Deferred acquisition costs, net                                                                                    | 216,689                   | 197,093                      |
| Unearned premiums ceded                                                                                            | 94                        | 187                          |
| Loss and loss adjustment expenses recoverable                                                                      | 1                         | 125                          |
| Other assets                                                                                                       | 16,499                    | 11,829                       |
| <b>Total assets</b>                                                                                                | <b>\$ 4,067,247</b>       | <b>\$ 3,545,108</b>          |
| <b>Liabilities and shareholders' equity</b>                                                                        |                           |                              |
| <b>Liabilities</b>                                                                                                 |                           |                              |
| Accounts payable and accrued expenses                                                                              | \$ 9,639                  | \$ 11,966                    |
| Reinsurance balances payable                                                                                       | 30,733                    | 24,119                       |
| Deposit liabilities                                                                                                | 86,594                    | 83,955                       |
| Unearned premium reserves                                                                                          | 591,970                   | 531,710                      |
| Loss and loss adjustment expense reserves                                                                          | 489,907                   | 466,047                      |
| Securities sold, not yet purchased, at fair value                                                                  | 235,919                   | 314,353                      |
| Securities sold under an agreement to repurchase                                                                   | 170,305                   | 8,944                        |
| Due to brokers                                                                                                     | 960,703                   | 574,962                      |
| Derivative liabilities, at fair value                                                                              | 28,524                    | 15,392                       |
| Interest and dividends payable                                                                                     | 2,397                     | 4,400                        |
| Senior notes payable, net of deferred costs                                                                        | 113,421                   | 113,377                      |
| <b>Total liabilities</b>                                                                                           | <b>2,720,112</b>          | <b>2,149,225</b>             |
| Commitments and contingent liabilities                                                                             |                           |                              |
| <b>Shareholders' equity</b>                                                                                        |                           |                              |
| Preference shares (par value \$0.10; authorized, 30,000,000; none issued)                                          | —                         | —                            |
| Common shares (par value \$0.10; authorized, 300,000,000; issued and outstanding, 106,213,131 (2015: 105,479,341)) | 10,621                    | 10,548                       |
| Additional paid-in capital                                                                                         | 1,083,168                 | 1,080,591                    |
| Retained earnings                                                                                                  | 237,458                   | 288,587                      |
| <b>Shareholders' equity attributable to shareholders</b>                                                           | <b>1,331,247</b>          | <b>1,379,726</b>             |
| Non-controlling interests                                                                                          | 15,888                    | 16,157                       |
| <b>Total shareholders' equity</b>                                                                                  | <b>1,347,135</b>          | <b>1,395,883</b>             |
| <b>Total liabilities and shareholders' equity</b>                                                                  | <b>\$ 4,067,247</b>       | <b>\$ 3,545,108</b>          |

The accompanying Notes to the Condensed Consolidated Financial Statements are  
an integral part of the Condensed Consolidated Financial Statements.

**THIRD POINT REINSURANCE LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)**  
For the three months ended March 31, 2016 and 2015  
(expresses in thousands of U.S. dollars, except per share and share amounts)

|                                                                                                          | 2016               | 2015             |
|----------------------------------------------------------------------------------------------------------|--------------------|------------------|
| <b>Revenues</b>                                                                                          |                    |                  |
| Gross premiums written                                                                                   | \$ 197,156         | \$ 213,334       |
| Gross premiums ceded                                                                                     | —                  | (52)             |
| Net premiums written                                                                                     | 197,156            | 213,282          |
| Change in net unearned premium reserves                                                                  | (60,354)           | (74,207)         |
| Net premiums earned                                                                                      | 136,802            | 139,075          |
| Net investment income (loss)                                                                             | (40,110)           | 64,918           |
| Total revenues                                                                                           | 96,692             | 203,993          |
| <b>Expenses</b>                                                                                          |                    |                  |
| Loss and loss adjustment expenses incurred, net                                                          | 84,676             | 81,746           |
| Acquisition costs, net                                                                                   | 51,687             | 54,657           |
| General and administrative expenses                                                                      | 11,288             | 11,708           |
| Other expenses                                                                                           | 2,706              | 2,701            |
| Interest expense                                                                                         | 2,048              | 1,036            |
| Foreign exchange gains                                                                                   | (2,386)            | (193)            |
| Total expenses                                                                                           | 150,019            | 151,655          |
| Income (loss) before income tax (expense) benefit                                                        | (53,327)           | 52,338           |
| Income tax (expense) benefit                                                                             | 1,929              | (1,305)          |
| <b>Income (loss) including non-controlling interests</b>                                                 | (51,398)           | 51,033           |
| (Income) loss attributable to non-controlling interests                                                  | 269                | (563)            |
| <b>Net income (loss)</b>                                                                                 | <u>\$ (51,129)</u> | <u>\$ 50,470</u> |
| <b>Earnings (loss) per share</b>                                                                         |                    |                  |
| Basic                                                                                                    | \$ (0.49)          | \$ 0.48          |
| Diluted                                                                                                  | \$ (0.49)          | \$ 0.47          |
| <b>Weighted average number of ordinary shares used in the determination of earnings (loss) per share</b> |                    |                  |
| Basic                                                                                                    | 104,257,874        | 103,753,065      |
| Diluted                                                                                                  | 104,257,874        | 106,144,183      |

The accompanying Notes to the Condensed Consolidated Financial Statements are  
an integral part of the Condensed Consolidated Financial Statements.

**THIRD POINT REINSURANCE LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**  
For the three months ended March 31, 2016 and 2015  
(expressed in thousands of U.S. dollars, except share amounts)

|                                                          | 2016                | 2015                |
|----------------------------------------------------------|---------------------|---------------------|
| <b>Common shares</b>                                     |                     |                     |
| Balance, beginning of period                             | 105,479,341         | 104,473,402         |
| Issuance of common shares                                | 733,790             | 697,333             |
| Balance, end of period                                   | 106,213,131         | 105,170,735         |
| <b>Common shares</b>                                     |                     |                     |
| Balance, beginning of period                             | \$ 10,548           | \$ 10,447           |
| Issuance of common shares                                | 73                  | 70                  |
| Balance, end of period                                   | 10,621              | 10,517              |
| <b>Additional paid-in capital</b>                        |                     |                     |
| Balance, beginning of period                             | 1,080,591           | 1,065,489           |
| Issuance of common shares, net                           | (74)                | 1,045               |
| Share compensation expense                               | 2,651               | 3,083               |
| Balance, end of period                                   | 1,083,168           | 1,069,617           |
| <b>Retained earnings</b>                                 |                     |                     |
| Balance, beginning of period                             | 288,587             | 375,977             |
| Income (loss) including non-controlling interests        | (51,398)            | 51,033              |
| (Income) loss attributable to non-controlling interests  | 269                 | (563)               |
| Balance, end of period                                   | 237,458             | 426,447             |
| <b>Shareholders' equity attributable to shareholders</b> | 1,331,247           | 1,506,581           |
| <b>Non-controlling interests</b>                         |                     |                     |
| Balance, beginning of period                             | 16,157              | 100,135             |
| Non-controlling interest in investment affiliate, net    | —                   | (24,999)            |
| Non-controlling interest in Catastrophe Fund             | —                   | (21,400)            |
| Non-controlling interest in Catastrophe Fund Manager     | —                   | 292                 |
| Income (loss) attributable to non-controlling interests  | (269)               | 563                 |
| Balance, end of period                                   | 15,888              | 54,591              |
| <b>Total shareholders' equity</b>                        | <u>\$ 1,347,135</u> | <u>\$ 1,561,172</u> |

The accompanying Notes to the Condensed Consolidated Financial Statements are  
an integral part of the Condensed Consolidated Financial Statements.

**THIRD POINT REINSURANCE LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
For the three months ended March 31, 2016 and 2015  
(expressed in thousands of U.S. dollars)

|                                                                                                                          | 2016            | 2015             |
|--------------------------------------------------------------------------------------------------------------------------|-----------------|------------------|
| <b>Operating activities</b>                                                                                              |                 |                  |
| Income (loss) including non-controlling interests                                                                        | \$ (51,398)     | \$ 51,033        |
| Adjustments to reconcile income (loss) including non-controlling interests to net cash provided by operating activities: |                 |                  |
| Share compensation expense                                                                                               | 2,651           | 3,083            |
| Interest expense on deposit liabilities                                                                                  | 471             | 631              |
| Net unrealized (gain) loss on investments and derivatives                                                                | 55,627          | (36,340)         |
| Net realized gain on investments and derivatives                                                                         | (24,510)        | (53,283)         |
| Foreign exchange gains included in income (loss) including non-controlling interests                                     | (2,386)         | (193)            |
| Amortization of premium and accretion of discount, net                                                                   | 2,542           | 1,673            |
| <b>Changes in assets and liabilities:</b>                                                                                |                 |                  |
| Reinsurance balances receivable                                                                                          | (31,603)        | 53,170           |
| Deferred acquisition costs, net                                                                                          | (19,596)        | (8,195)          |
| Unearned premiums ceded                                                                                                  | 93              | —                |
| Loss and loss adjustment expenses recoverable                                                                            | 124             | 406              |
| Other assets                                                                                                             | (4,670)         | (3,345)          |
| Interest and dividends receivable, net                                                                                   | (5,408)         | (2,380)          |
| Unearned premium reserves                                                                                                | 60,260          | 74,205           |
| Loss and loss adjustment expense reserves                                                                                | 26,136          | (2,907)          |
| Accounts payable and accrued expenses                                                                                    | (2,397)         | (2,024)          |
| Reinsurance balances payable                                                                                             | 6,892           | 26,638           |
| Performance fee payable to related party                                                                                 | —               | 15,844           |
| Net cash provided by operating activities                                                                                | 12,828          | 118,016          |
| <b>Investing activities</b>                                                                                              |                 |                  |
| Purchases of investments                                                                                                 | (1,189,432)     | (875,871)        |
| Proceeds from sales of investments                                                                                       | 771,687         | 747,492          |
| Purchases of investments to cover short sales                                                                            | (459,901)       | (116,867)        |
| Proceeds from short sales of investments                                                                                 | 386,054         | 150,942          |
| Change in due to/from brokers, net                                                                                       | 288,507         | (17,603)         |
| Decrease in securities purchased under an agreement to sell                                                              | —               | 12,222           |
| Increase in securities sold under an agreement to repurchase                                                             | 161,361         | 61,939           |
| Change in restricted cash and cash equivalents                                                                           | 13,992          | (166,167)        |
| Net cash used in investing activities                                                                                    | (27,732)        | (203,913)        |
| <b>Financing activities</b>                                                                                              |                 |                  |
| Proceeds from issuance of common shares, net of costs                                                                    | —               | 1,115            |
| Proceeds from issuance of senior notes payable, net of costs                                                             | —               | 114,025          |
| Increase in deposit liabilities                                                                                          | 2,155           | 478              |
| Non-controlling interest in investment affiliate, net                                                                    | —               | (24,999)         |
| Non-controlling interest in Catastrophe Fund                                                                             | —               | (21,400)         |
| Non-controlling interest in Catastrophe Fund Manager                                                                     | —               | 292              |
| Net cash provided by financing activities                                                                                | 2,155           | 69,511           |
| Net decrease in cash and cash equivalents                                                                                | (12,749)        | (16,386)         |
| Cash and cash equivalents at beginning of period                                                                         | 20,407          | 28,734           |
| <b>Cash and cash equivalents at end of period</b>                                                                        | <b>\$ 7,658</b> | <b>\$ 12,348</b> |
| <b>Supplementary information</b>                                                                                         |                 |                  |
| Interest paid in cash                                                                                                    | \$ 8,445        | \$ 979           |
| Income taxes paid in cash                                                                                                | \$ 1,177        | \$ 437           |

The accompanying Notes to the Condensed Consolidated Financial Statements are  
an integral part of the Condensed Consolidated Financial Statements.

**Third Point Reinsurance Ltd.**  
**Notes to the Condensed Consolidated Financial Statements (UNAUDITED)**  
**(Expressed in United States Dollars)**

**1. Organization**

Third Point Reinsurance Ltd. (together with its wholly and majority owned subsidiaries, the “Company”) was incorporated under the laws of Bermuda on October 6, 2011. Through its reinsurance subsidiaries, the Company is a provider of global specialty property and casualty reinsurance products. The Company operates through two licensed reinsurance subsidiaries, Third Point Reinsurance Company Ltd. (“Third Point Re”), a Bermuda reinsurance company that commenced operations in January 2012, and Third Point Reinsurance (USA) Ltd. (“Third Point Re USA”).

Third Point Re USA is a Bermuda reinsurance company that was incorporated on November 21, 2014 and commenced operations in February 2015. Third Point Re USA made an election under Section 953(d) of the U.S. Internal Revenue Code of 1986, as amended, to be taxed as a U.S. entity. Third Point Re USA prices and underwrites U.S. domiciled reinsurance business from an office in the United States. Third Point Re USA is a wholly owned subsidiary of Third Point Re (USA) Holdings, Inc. (“TPRUSA”), an intermediate holding company based in the U.S., which is a wholly owned subsidiary of Third Point Re (UK) Holdings Ltd. (“Third Point Re UK”), an intermediate holding company based in the United Kingdom. Third Point Re UK is a wholly owned subsidiary of Third Point Reinsurance Ltd. The Company’s common shares are listed on the New York Stock Exchange under the symbol “TPRE”.

In June 2012, Third Point Reinsurance Opportunities Fund Ltd. (the “Catastrophe Fund”), Third Point Reinsurance Investment Management Ltd. (the “Catastrophe Fund Manager”), and Third Point Re Cat Ltd. (the “Catastrophe Reinsurer”) were incorporated in Bermuda. The Catastrophe Fund Manager, a Bermuda exempted company, was the investment manager of the Catastrophe Fund. In December 2014, the Company announced that it would no longer accept investments in the Catastrophe Fund, that no new business would be written in the Catastrophe Reinsurer and that the Company would be redeeming all existing investments in the Catastrophe Fund. As of December 31, 2015, all investments in the Catastrophe Fund were redeemed. In February 2016, the Company completed the dissolution of the Catastrophe Fund and Catastrophe Reinsurer.

In August 2012, the Company established a wholly-owned subsidiary in the United Kingdom, Third Point Re Marketing (UK) Limited (“TPRUK”). On May 20, 2013, TPRUK was licensed as an insurance intermediary by the UK Financial Conduct Authority.

These unaudited condensed consolidated financial statements include the results of Third Point Reinsurance Ltd. and its wholly and majority owned subsidiaries (together, the “Company”) and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 in Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. This Quarterly Report should be read in conjunction with the audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (the “2015 10-K”), as filed with the U.S. Securities and Exchange Commission on February 26, 2016.

In the opinion of management, these unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company’s financial position and results of operations as at the end of and for the periods presented. All significant intercompany accounts and transactions have been eliminated.

The results for the three months ended March 31, 2016 are not necessarily indicative of the results expected for the full calendar year.

## **2. Significant accounting policies**

There have been no material changes to the Company's significant accounting policies as described in its 2015 Form 10-K, except as noted below.

### **Recently issued accounting standards**

#### ***Issued and effective as of March 31, 2016***

In February 2015, the FASB issued Accounting Standard Update 2015-02, *Consolidation (Topic 810) Amendments to the Consolidation Analysis* (ASU 2015-02). ASU 2015-02 requires management to evaluate whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities. ASU 2015-02 eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 also provides a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in ASU 2015-02 are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim period within those fiscal years. This pronouncement did not have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update 2015-03, *Interest - Imputation of Interest* (ASU 2015-03). ASU 2015-03 simplifies the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. The amendments in ASU 2015-03 are effective for financial statements issued for fiscal years beginning after December 31, 2015, and interim periods within those fiscal years. Early adoption was permitted and the Company early adopted ASU 2015-03 effective with its debt issuance in February 2015 and as a result, there is no impact in the current year period.

In May 2015, the FASB issued Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2015-07). ASU 2015-07 eliminates the requirement to categorize certain investments in the fair value hierarchy if their fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. The amendments in ASU 2015-07 are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company has removed investments measured at NAV from the fair value hierarchy disclosure in its condensed consolidated financial statements.

In June 2015, the FASB issued Accounting Standards Update 2015-10, *Technical Corrections and Improvements* (ASU 2015-10). ASU 2015-10 amends a number of Topics in the FASB Accounting Standards Codification and is part of an ongoing project on the FASB's agenda to facilitate Codification updates for non-substantive technical corrections, clarifications and improvements that are not expected to have a significant effect on accounting practice or create a significant administrative cost to most entities. The amendments to transition guidance are effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. All other changes are effective upon issuance of this ASU 2015-10. This pronouncement did not have a material impact on the Company's consolidated financial statements.

#### ***Issued but not yet effective as of March 31, 2016***

In May 2015, the FASB issued Accounting Standards Update 2015-09, *Disclosures about Short-Duration Contracts* (ASU 2015-09). ASU 2015-09 amends ASC 944 (Financial Services - Insurance) to expand the disclosures that an insurance entity must provide about its short-duration insurance contracts. Under ASU 2015-09, the FASB focused on targeted improvements to provide users with additional information about insurance liabilities, including the nature, amount, timing, and uncertainty of future cash flows related to insurance liabilities. The amendments in ASU 2015-09 are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning

after December 15, 2016. Early adoption is permitted. The Company will include the additional new disclosures in its consolidated financial statements as of and for the year ending December 31, 2016 and interim periods thereafter.

In November 2015, the FASB issued Accounting Standards Update 2015-17, *Balance Sheet Classification of Deferred Taxes* (ASU 2015-17). ASU 2015-17 eliminates the requirement to split deferred tax liabilities between current and non-current and classify all deferred tax liabilities as non-current in the balance sheet. ASU 2015-17 is effective for annual periods beginning after December 15, 2016, and interim periods within those periods. The Company is currently evaluating the impact of this guidance on the Company's condensed consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update 2016-07, *Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting* (ASU 2016-07). ASU 2016-07 simplifies the equity method of accounting by eliminating the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in the level of ownership interest or degree of influence. ASU 2016-07 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance on the Company's condensed consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update 2016-09, *Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance on the Company's condensed consolidated financial statements.

### 3. Restricted cash and cash equivalents and restricted investments

Restricted cash and cash equivalents and restricted investments as of March 31, 2016 and December 31, 2015 consisted of the following:

|                                                                       | March 31,<br>2016 | December 31,<br>2015 |
|-----------------------------------------------------------------------|-------------------|----------------------|
|                                                                       | (\$ in thousands) |                      |
| Restricted cash securing letter of credit facilities (1)              | \$ 263,742        | \$ 270,755           |
| Restricted cash securing other reinsurance contracts (2)              | 53,181            | 60,160               |
| Total restricted cash and cash equivalents                            | 316,923           | 330,915              |
| Restricted investments securing other reinsurance contracts (2)       | 398,025           | 292,111              |
| Total restricted cash and cash equivalents and restricted investments | \$ 714,948        | \$ 623,026           |

- (1) Restricted cash securing letter of credit facilities pertains to letters of credit issued to clients and cash securing these obligations that the Company will not be released from until the underlying reserves have been settled. The time period for which the Company expects these letters of credit to be in place varies from contract to contract, but can last at least several years.
- (2) Restricted cash and restricted investments securing other reinsurance contracts pertain to trust accounts securing the Company's contractual obligations under certain reinsurance contracts that the Company will not be released from until all underlying risks have expired or have been settled. Restricted investments include certain investments in debt securities including investments in U.S. Treasury securities and sovereign debt. The time period for which the Company expects these trust accounts to be in place varies from contract to contract, but can last at least several years.

#### 4. Investments

The Company's investments are managed by its investment manager, Third Point LLC ("Third Point LLC" or the "Investment Manager"), under long-term investment management contracts. The Company directly owns the investments that are held in separate accounts and managed by Third Point LLC. The following is a summary of the separate accounts managed by Third Point LLC:

|                                                         | March 31,<br>2016   | December 31,<br>2015 |
|---------------------------------------------------------|---------------------|----------------------|
|                                                         | (\$ in thousands)   |                      |
| <b>Assets</b>                                           |                     |                      |
| Total investments in securities                         | \$ 2,691,431        | \$ 2,290,779         |
| Cash and cash equivalents                               | 11                  | 57                   |
| Restricted cash and cash equivalents                    | 316,923             | 330,915              |
| Due from brokers                                        | 424,205             | 326,971              |
| Derivative assets                                       | 26,877              | 35,337               |
| Interest and dividends receivable                       | 14,092              | 10,687               |
| <b>Total assets</b>                                     | <b>3,473,539</b>    | <b>2,994,746</b>     |
| <b>Liabilities and non-controlling interest</b>         |                     |                      |
| Accounts payable and accrued expenses                   | 1,102               | 770                  |
| Securities sold, not yet purchased                      | 235,919             | 314,353              |
| Securities sold under an agreement to repurchase        | 170,305             | 8,944                |
| Due to brokers                                          | 960,703             | 574,962              |
| Derivative liabilities                                  | 28,524              | 15,392               |
| Interest and dividends payable                          | 1,363               | 1,345                |
| Non-controlling interest                                | 15,888              | 16,157               |
| Total liabilities and non-controlling interest          | 1,413,804           | 931,923              |
| <b>Total net investments managed by Third Point LLC</b> | <b>\$ 2,059,735</b> | <b>\$ 2,062,823</b>  |

Investments are carried at fair value. The fair values of investments are estimated using prices obtained from either third-party pricing services or broker quotes. The methodology for valuation is generally determined based on the investment's asset class per the Company's Investment Manager's valuation policy. For investments where fair values from pricing services or brokers are unavailable, fair values are estimated using information obtained by the Company's Investment Manager.

Securities listed on a national securities exchange or quoted on NASDAQ are valued at their last sales price as of the last business day of the period. Listed securities with no reported sales on such date and over-the-counter ("OTC") securities are valued at their last closing bid price if held long by the Company, and last closing ask price if held short by the Company. As of March 31, 2016, securities valued at \$555.4 million (December 31, 2015 - \$570.9 million), representing 20.4% (December 31, 2015 - 24.5%) of investments in securities and derivative assets, and \$1.7 million (December 31, 2015 - \$1.5 million), representing 0.6% (December 31, 2015 - 0.4%) of securities sold, not yet purchased and derivative liabilities, are valued based on broker quotes or other quoted market prices for similar securities.

Private securities are those not registered for public sale and are carried at an estimated fair value at the end of the period. Valuation techniques used by the Company may include market approach, last transaction analysis, liquidation analysis and/or discounted cash flow models where the significant inputs could include but are not limited to additional rounds of equity financing, financial metrics such as revenue multiples or price-earnings ratio, discount rates and other factors. In addition, third party valuation firms may be employed to conduct investment valuations of such private securities. The third party valuation firms provide written reports documenting their recommended valuation as of the determination date for the specified investments.

As of March 31, 2016, the Company had \$31.5 million (December 31, 2015 - \$31.0 million) of investments fair valued by the Company's Investment Manager representing approximately 1.2% (December 31, 2015 - 1.3%) of total

investments in securities and derivative assets of which 93.1% were separately valued by third party valuation firms using information obtained from the Company's Investment Manager. The actual value at which these securities could be sold or settled with a willing buyer or seller may differ from the Company's estimated fair values depending on a number of factors including, but not limited to, current and future economic conditions, the quantity sold or settled, the presence of an active market and the availability of a willing buyer or seller.

The Company's free standing derivatives are recorded at fair value, and are included in the condensed consolidated balance sheets in derivative assets and derivative liabilities. The Company values exchange-traded derivatives at their last sales price on the exchange where they are primarily traded. OTC derivatives, which include swap, option, swaption, forward, future and contract for differences, are valued by third party sources when available; otherwise, fair values are obtained from broker quotes that are based on pricing models that consider the time value of money, volatility, and the current market and contractual prices of the underlying financial instruments.

The Company also has derivatives embedded in non-derivative host contracts that are required to be separated from the host contracts and accounted for at fair value with changes in fair value of the embedded derivative reported in other expenses. The Company's embedded derivatives relate to interest crediting features in certain reinsurance and deposit contracts that vary based on the returns on the Company's investments managed by Third Point LLC. The Company determines the fair value of the embedded derivatives using models developed by the Company.

As of March 31, 2016 and December 31, 2015, the Company's asset-backed securities ("ABS") holdings were as follows:

|                                 | March 31, 2016    |         | December 31, 2015 |                   |
|---------------------------------|-------------------|---------|-------------------|-------------------|
|                                 | (\$ in thousands) |         |                   |                   |
| Re-REMIC (1)                    | \$                | 136,921 | 31.8%             | \$ 195,889 39.6%  |
| Subprime RMBS                   |                   | 174,238 | 40.5%             | 174,777 35.3%     |
| Collateralized debt obligations |                   | 48,896  | 11.4%             | 50,455 10.2%      |
| Other (2)                       |                   | 69,850  | 16.3%             | 73,602 14.9%      |
|                                 | \$                | 429,905 | 100.0%            | \$ 494,723 100.0% |

(1) Mezzanine portions of the re-securitized real estate mortgage investment conduits ("re-REMIC") structure of ABS.

(2) Other includes: U.S. Alt-A positions, commercial mortgage-backed securities, market place loans, Non-U.S. RMBS and student loans ABS.

As of March 31, 2016, all of the Company's ABS holdings were private-label issued, non-investment grade securities, and none of these securities were guaranteed by a government sponsored entity. These investments are valued using broker quotes or a recognized third-party pricing vendor. All of these classes of ABS are sensitive to changes in interest rates and any resulting change in the rate at which borrowers sell their properties, refinance, or otherwise pre-pay their loans. As an investor in these classes of ABS, the Company may be exposed to the credit risk of underlying borrowers not being able to make timely payments on loans or the likelihood of borrowers defaulting on their loans. In addition, the Company may be exposed to significant market and liquidity risks.

The Company values its investments in limited partnerships at fair value, which is estimated based on the Company's share of the net asset value ("NAV") of the limited partnerships as provided by the investment managers of the underlying investment funds. The resulting net gains or net losses are reflected in the condensed consolidated statements of income (loss).

In 2014, the Company entered into a subscription agreement with the Kiskadee Diversified Fund Ltd. ("Kiskadee Fund") to invest up to \$25.0 million in Hiscox Insurance Company (Bermuda) Limited's ("Hiscox") separately managed insurance-linked securities platform, Kiskadee Re Ltd. The Kiskadee Fund is a fund vehicle managed by Hiscox. The Kiskadee Fund invests in property catastrophe exposures through collateralized reinsurance transactions and other insurance-linked investments. On January 2, 2015 and June 1, 2015, the Company funded \$5.0 million and \$20.0 million, respectively, and there are no remaining commitments. The Company has elected the fair value option for this investment. This investment is included in investment in funds valued at NAV and is excluded from the presentation of investments categorized by the level of the fair value hierarchy. The fair value is estimated based on the Company's

share of the net asset value in the Kiskadee Fund, as provided by the investment manager. The resulting net gains or losses are reflected in the condensed consolidated statements of income (loss).

U.S. GAAP disclosure requirements establish a framework for measuring fair value, including a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. The three-level hierarchy of inputs is summarized below:

- Level 1 – Quoted prices available in active markets/exchanges for identical investments as of the reporting date.
- Level 2 – Observable inputs to the valuation methodology other than unadjusted quoted market prices for identical assets or liabilities in active markets. Level 2 inputs include, but are not limited to, prices quoted for similar assets or liabilities in active markets/exchanges, prices quoted for identical or similar assets or liabilities in markets that are not active and fair values determined through the use of models or other valuation methodologies.
- Level 3 – Pricing inputs unobservable for the investment and include activities where there is little, if any, market activity for the investment. The inputs applied in the determination of fair value require significant management judgment and estimation.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources other than those of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and considers factors specific to the investment.

The key inputs for corporate, government and sovereign bond valuation are coupon frequency, coupon rate and underlying bond spreads. The key inputs for ABS are yield, probability of default, loss severity and prepayment.

Key inputs for over-the-counter ("OTC") valuations vary based on the type of underlying security on which the contract was written:

- The key inputs for most OTC option contracts include notional, strike price, maturity, payout structure, current foreign exchange forward and spot rates, current market price of the underlying security and volatility of the underlying security.
- The key inputs for most forward contracts include notional, maturity, forward rate, spot rate, various interest rate curves and discount factor.
- The key inputs for swap valuation will vary based on the type of underlying on which the contract was written. Generally, the key inputs for most swap contracts include notional, swap period, fixed rate, credit or interest rate curves, current market or spot price of the underlying security and the volatility of the underlying security.

The following tables present the Company's investments, categorized by the level of the fair value hierarchy as of March 31, 2016 and December 31, 2015:

|                                          | March 31, 2016                     |                                           |                                       |                     |
|------------------------------------------|------------------------------------|-------------------------------------------|---------------------------------------|---------------------|
|                                          | Quoted prices in<br>active markets | Significant other<br>observable<br>inputs | Significant<br>unobservable<br>inputs | Total               |
|                                          | (Level 1)                          | (Level 2)                                 | (Level 3)                             |                     |
| <b>Assets</b>                            | (\$ in thousands)                  |                                           |                                       |                     |
| Equity securities                        | \$ 1,433,278                       | \$ 20,556                                 | \$ —                                  | \$ 1,453,834        |
| Private common equity securities         | —                                  | —                                         | 4,138                                 | 4,138               |
| Private preferred equity securities      | —                                  | —                                         | 25,104                                | 25,104              |
| Total equities                           | 1,433,278                          | 20,556                                    | 29,242                                | 1,483,076           |
| Asset-backed securities                  | —                                  | 427,676                                   | 2,229                                 | 429,905             |
| Bank debts                               | —                                  | 7,527                                     | —                                     | 7,527               |
| Corporate bonds                          | —                                  | 157,874                                   | 2,958                                 | 160,832             |
| U.S. Treasury securities                 | —                                  | 293,992                                   | —                                     | 293,992             |
| Sovereign debt                           | —                                  | 292,846                                   | —                                     | 292,846             |
| Total debt securities                    | —                                  | 1,179,915                                 | 5,187                                 | 1,185,102           |
| Options                                  | 1,208                              | 4,640                                     | —                                     | 5,848               |
| Rights and warrants                      | 223                                | —                                         | —                                     | 223                 |
| Trade claims                             | —                                  | 8,737                                     | —                                     | 8,737               |
| Total other investments                  | 1,431                              | 13,377                                    | —                                     | 14,808              |
| Derivative assets (free standing)        | 4,181                              | 22,696                                    | —                                     | 26,877              |
|                                          | <u>\$ 1,438,890</u>                | <u>\$ 1,236,544</u>                       | <u>\$ 34,429</u>                      | <u>\$ 2,709,863</u> |
| Investments in funds valued at NAV       |                                    |                                           |                                       | 35,157              |
| <b>Total assets</b>                      |                                    |                                           |                                       | <u>\$ 2,745,020</u> |
| <b>Liabilities</b>                       |                                    |                                           |                                       |                     |
| Equity securities                        | \$ 189,851                         | \$ —                                      | \$ —                                  | \$ 189,851          |
| Corporate bonds                          | —                                  | 26,832                                    | —                                     | 26,832              |
| Options                                  | 7,601                              | 11,635                                    | —                                     | 19,236              |
| Total securities sold, not yet purchased | 197,452                            | 38,467                                    | —                                     | 235,919             |
| Derivative liabilities (free standing)   | —                                  | 27,438                                    | 1,086                                 | 28,524              |
| Derivative liabilities (embedded)        | —                                  | —                                         | 5,328                                 | 5,328               |
| <b>Total liabilities</b>                 | <u>\$ 197,452</u>                  | <u>\$ 65,905</u>                          | <u>\$ 6,414</u>                       | <u>\$ 269,771</u>   |

|                                          | December 31, 2015                               |                                                        |                                                    |                     |
|------------------------------------------|-------------------------------------------------|--------------------------------------------------------|----------------------------------------------------|---------------------|
|                                          | Quoted prices in<br>active markets<br>(Level 1) | Significant other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Total               |
| <b>Assets</b>                            | (\$ in thousands)                               |                                                        |                                                    |                     |
| Equity securities                        | \$ 1,181,865                                    | \$ 19,758                                              | \$ —                                               | \$ 1,201,623        |
| Private common equity securities         | —                                               | 919                                                    | 4,357                                              | 5,276               |
| Private preferred equity securities      | —                                               | —                                                      | 24,178                                             | 24,178              |
| Total equities                           | 1,181,865                                       | 20,677                                                 | 28,535                                             | 1,231,077           |
| Asset-backed securities                  | —                                               | 492,106                                                | 2,617                                              | 494,723             |
| Bank debts                               | —                                               | 2,158                                                  | 7,660                                              | 9,818               |
| Corporate bonds                          | —                                               | 79,938                                                 | 3,252                                              | 83,190              |
| U.S. Treasury securities                 | —                                               | 186,471                                                | —                                                  | 186,471             |
| Sovereign debt                           | —                                               | 260,024                                                | 21                                                 | 260,045             |
| Total debt securities                    | —                                               | 1,020,697                                              | 13,550                                             | 1,034,247           |
| Options                                  | —                                               | 8,911                                                  | —                                                  | 8,911               |
| Rights and warrants                      | 416                                             | —                                                      | —                                                  | 416                 |
| Trade claims                             | —                                               | 8,329                                                  | —                                                  | 8,329               |
| Total other investments                  | 416                                             | 17,240                                                 | —                                                  | 17,656              |
| Derivative assets (free standing)        | —                                               | 35,337                                                 | —                                                  | 35,337              |
|                                          | <u>\$ 1,182,281</u>                             | <u>\$ 1,093,951</u>                                    | <u>\$ 42,085</u>                                   | <u>\$ 2,318,317</u> |
| Investments in funds valued at NAV       |                                                 |                                                        |                                                    | 34,264              |
| <b>Total assets</b>                      |                                                 |                                                        |                                                    | <u>\$ 2,352,581</u> |
| <b>Liabilities</b>                       |                                                 |                                                        |                                                    |                     |
| Equity securities                        | \$ 228,009                                      | \$ —                                                   | \$ —                                               | \$ 228,009          |
| Sovereign debt                           | —                                               | 5,856                                                  | —                                                  | 5,856               |
| Corporate bonds                          | —                                               | 76,131                                                 | —                                                  | 76,131              |
| Options                                  | 690                                             | 3,667                                                  | —                                                  | 4,357               |
| Total securities sold, not yet purchased | 228,699                                         | 85,654                                                 | —                                                  | 314,353             |
| Derivative liabilities (free standing)   | —                                               | 14,372                                                 | 1,020                                              | 15,392              |
| Derivative liabilities (embedded)        | —                                               | —                                                      | 5,563                                              | 5,563               |
| <b>Total liabilities</b>                 | <u>\$ 228,699</u>                               | <u>\$ 100,026</u>                                      | <u>\$ 6,583</u>                                    | <u>\$ 335,308</u>   |

During the three months ended March 31, 2016, the Company made no significant reclassifications of assets or liabilities between Levels 1 and 2. During the year ended December 31, 2015, the Company reclassified \$4.0 million of equity securities from Level 2 to Level 1 equity securities. These reclassifications were the result of the issuer's IPO, with quoted prices having become available in an active market as of the reporting date and transfers due to restriction change.

The following table presents the reconciliation of all investments measured at fair value using Level 3 inputs for the three months ended March 31, 2016 and 2015:

|                                        | January 1,<br>2016 | Transfers in<br>to (out of)<br>Level 3 | Purchases       | Sales           | Realized and<br>Unrealized<br>Gains<br>(Losses) (1) | March 31,<br>2016 |
|----------------------------------------|--------------------|----------------------------------------|-----------------|-----------------|-----------------------------------------------------|-------------------|
|                                        | (\$ in thousands)  |                                        |                 |                 |                                                     |                   |
| Assets                                 |                    |                                        |                 |                 |                                                     |                   |
| Private common equity securities       | \$ 4,357           | \$ —                                   | \$ —            | \$ —            | \$ (219)                                            | \$ 4,138          |
| Private preferred equity securities    | 24,178             | —                                      | 2,111           | —               | (1,185)                                             | 25,104            |
| Asset-backed securities                | 2,617              | 168                                    | 192             | (228)           | (520)                                               | 2,229             |
| Bank debts                             | 7,660              | (7,660)                                | —               | —               | —                                                   | —                 |
| Corporate bonds                        | 3,252              | —                                      | —               | (32)            | (262)                                               | 2,958             |
| Sovereign debt                         | 21                 | —                                      | —               | (20)            | (1)                                                 | —                 |
| Total assets                           | <u>\$ 42,085</u>   | <u>\$ (7,492)</u>                      | <u>\$ 2,303</u> | <u>\$ (280)</u> | <u>\$ (2,187)</u>                                   | <u>\$ 34,429</u>  |
| Liabilities                            |                    |                                        |                 |                 |                                                     |                   |
| Derivative liabilities (free standing) | \$ (1,020)         | \$ —                                   | \$ —            | \$ (66)         | \$ —                                                | \$ (1,086)        |
| Derivative liabilities (embedded)      | (5,563)            | —                                      | —               | —               | 235                                                 | (5,328)           |
| Total liabilities                      | <u>\$ (6,583)</u>  | <u>\$ —</u>                            | <u>\$ —</u>     | <u>\$ (66)</u>  | <u>\$ 235</u>                                       | <u>\$ (6,414)</u> |

|                                        | January 1,<br>2015 | Transfers in<br>to (out of)<br>Level 3 | Purchases        | Sales           | Realized and<br>Unrealized<br>Gains<br>(Losses) (1) | March 31,<br>2015  |
|----------------------------------------|--------------------|----------------------------------------|------------------|-----------------|-----------------------------------------------------|--------------------|
|                                        | (\$ in thousands)  |                                        |                  |                 |                                                     |                    |
| Assets                                 |                    |                                        |                  |                 |                                                     |                    |
| Private common equity securities       | \$ 1,443           | \$ —                                   | \$ —             | \$ —            | \$ (481)                                            | \$ 962             |
| Private preferred equity securities    | —                  | —                                      | 8,502            | —               | —                                                   | 8,502              |
| Asset-backed securities                | 4,720              | (3,451)                                | 2,562            | (560)           | 315                                                 | 3,586              |
| Bank debt                              | —                  | —                                      | 7,634            | —               | 47                                                  | 7,681              |
| Corporate bonds                        | 3,799              | —                                      | —                | —               | (681)                                               | 3,118              |
| Sovereign debt                         | —                  | 18                                     | —                | —               | —                                                   | 18                 |
| Total assets                           | <u>\$ 9,962</u>    | <u>\$ (3,433)</u>                      | <u>\$ 18,698</u> | <u>\$ (560)</u> | <u>\$ (800)</u>                                     | <u>\$ 23,867</u>   |
| Liabilities                            |                    |                                        |                  |                 |                                                     |                    |
| Derivative liabilities (free standing) | \$ (962)           | \$ —                                   | \$ —             | \$ (174)        | \$ —                                                | \$ (1,136)         |
| Derivative liabilities (embedded)      | (9,289)            | —                                      | —                | (29)            | (300)                                               | (9,618)            |
| Total liabilities                      | <u>\$ (10,251)</u> | <u>\$ —</u>                            | <u>\$ —</u>      | <u>\$ (203)</u> | <u>\$ (300)</u>                                     | <u>\$ (10,754)</u> |

(1) Total change in realized and unrealized gains (losses) recorded on Level 3 financial instruments is included in net investment income in the condensed consolidated statements of income (loss).

Total change in unrealized loss on fair value of assets using significant unobservable inputs (Level 3) still held at March 31, 2016 was \$1.7 million (2015 - loss of \$1.4 million).

For assets and liabilities that were transferred into Level 3 during the period, gains (losses) are presented as if the assets or liabilities had been transferred into Level 3 at the beginning of the period; similarly, for assets and liabilities that were transferred out of Level 3 during the period, gains (losses) are presented as if the assets or liabilities had been transferred out of Level 3 at the beginning of the period.

The following table summarizes information about the significant unobservable inputs used in determining the fair value of the Level 3 investments held by the Company. Level 3 investments not presented in the table below generally do not have any unobservable inputs to disclose, as they are valued primarily using dealer quotes or at cost.

| March 31, 2016                       |                                 |                      |                                                      |                             |
|--------------------------------------|---------------------------------|----------------------|------------------------------------------------------|-----------------------------|
| Assets                               | Fair value<br>(\$ in thousands) | Valuation technique  | Unobservable (U) and<br>observable (O) inputs        | Range                       |
| Corporate bond                       | \$ 2,207                        | Discounted cash flow | Yield (U)                                            | 19.5 - 20.5%                |
|                                      |                                 |                      | Duration (U)                                         | 3 years                     |
|                                      |                                 |                      | Credit spread (U)                                    | 972 bps                     |
|                                      |                                 |                      | Volatility (U)                                       | 30.0 - 36.5%                |
| Derivative liabilities<br>(embedded) | \$ 5,328                        | Discounted cash flow | Contractual Variable Annual Investment<br>Credit (U) | 0.0 - 2.5%                  |
|                                      |                                 |                      | Mean Monthly Investment Return (U)                   | 1.2%                        |
|                                      |                                 |                      | Duration from Inception of Contracts (U)             | 5.0 - 5.5 years             |
|                                      |                                 |                      | Duration from Valuation Date (U)                     | 3.8 - 4.8 years             |
|                                      |                                 |                      | Interest Rates (O)                                   | U.S. Treasury<br>Spot Rates |

| December 31, 2015                    |                                 |                      |                                                      |                             |
|--------------------------------------|---------------------------------|----------------------|------------------------------------------------------|-----------------------------|
| Assets                               | Fair value<br>(\$ in thousands) | Valuation technique  | Unobservable (U) and<br>observable (O) inputs        | Range                       |
| Corporate bond                       | \$ 2,444                        | Discounted cash flow | Yield (U)                                            | 10.4 - 11.4%                |
|                                      |                                 |                      | Duration (U)                                         | 3 years                     |
|                                      |                                 |                      | Credit spread (U)                                    | 986 bps                     |
|                                      |                                 |                      | Volatility (U)                                       | 25.0 - 35.0%                |
| Derivative liabilities<br>(embedded) | \$ 5,563                        | Discounted cash flow | Contractual Variable Annual Investment<br>Credit (U) | 0.0 - 2.5%                  |
|                                      |                                 |                      | Mean Monthly Investment Return (U)                   | 1.2%                        |
|                                      |                                 |                      | Duration from Inception of Contracts (U)             | 5.0 - 5.5 years             |
|                                      |                                 |                      | Duration from Valuation Date (U)                     | 4.0 - 5.0 years             |
|                                      |                                 |                      | Interest Rates (O)                                   | U.S. Treasury<br>Spot Rates |

### Corporate bond

Included in the Company's corporate bond investments are investments in the convertible debt of a real estate investment company with a fair value of \$2.2 million as of March 31, 2016. The Company measures the fair value of this investment using the Tsiveriotis-Fernandes income and Black-Scholes approaches and seeks to incorporate all relevant information reasonably available. The valuation methodology takes into account both the equity and debt component of the instrument. In addition, foreign exchange risk is considered as the bonds are denominated in Euro and U.S. Dollars and the underlying stock is traded in British Pounds Sterling. The fair value of the Company's investment in this corporate convertible debt is positively correlated to the underlying investment stock price, and inversely correlated to the credit spread, liquidity discount and the risk-free rate.

### Derivative liabilities (embedded)

The Company also has derivatives embedded in non-derivative host contracts that are required to be separated from the host contracts and accounted for at fair value with changes in fair value of the embedded derivative reported in other expenses. The Company's embedded derivatives relate to interest crediting features in certain reinsurance and deposit contracts that vary based on the returns on the Company's investments managed by Third Point LLC. The Company determines the fair value of the embedded derivatives using models developed by the Company. The fair value of these embedded derivative liabilities is positively correlated with the actual realized investment returns and

the assumed future investment returns during the contract period and negatively correlated with U.S. Treasury Spot Rates.

For the three months ended March 31, 2016 and 2015, there were no changes in the valuation techniques as they relate to the above.

## 5. Securities purchased under an agreement to sell, securities sold under an agreement to repurchase and securities lending transactions

The Company may enter into repurchase and reverse repurchase agreements with financial institutions in which the financial institution agrees to resell or repurchase securities and the Company agrees to repurchase or resell such securities at a mutually agreed price upon maturity. These agreements are generally collateralized by corporate or government bonds or asset-backed securities. As the Company held only repurchase agreements as of March 31, 2016, these positions are not affected by counterparty netting agreements. Interest payable and receivable related to these transactions are included in interest payable and receivable in the condensed consolidated balance sheets. For the three months ended March 31, 2016, there were no foreign currency gains (2015 - loss of \$2.9 million) on reverse repurchase agreements and no foreign currency gains (2015 - gain of \$0.3 million) on repurchase agreements are included in net investment income (loss) in the condensed consolidated statements of income (loss). Generally, repurchase and reverse repurchase agreements mature within 30 to 90 days. The Company may lend securities for securities lending transactions or pledge securities and/or cash for securities borrowed transactions. The value of any securities loaned is reflected in investments in securities. Any collateral received is reflected in due to brokers in the consolidated balance sheets.

The Company's repurchase and securities lending agreements may result in credit exposure in the event the counterparty to the transaction is unable to fulfill its contractual obligations. It is the Company's policy to monitor and control collateral under such agreements.

The following table presents the remaining contractual maturity of the repurchase agreements and securities lending transactions by class of collateral pledged as of March 31, 2016 and December 31, 2015:

| March 31, 2016                                          | Overnights and continuous | Up to 30 days | 30 - 90 days | Greater than 90 days | Total      |
|---------------------------------------------------------|---------------------------|---------------|--------------|----------------------|------------|
| (\$ in thousands)                                       |                           |               |              |                      |            |
| <b>Securities sold under an agreement to repurchase</b> |                           |               |              |                      |            |
| Asset-backed securities                                 | \$ —                      | \$ —          | \$ 55,017    | \$ —                 | \$ 55,017  |
| Non-U.S. sovereign debt                                 | —                         | —             | 115,288      | —                    | 115,288    |
| Total                                                   | \$ —                      | \$ —          | \$ 170,305   | \$ —                 | \$ 170,305 |
| <b>Securities lending transactions</b>                  |                           |               |              |                      |            |
| U.S. Treasury and agency securities                     | \$ 3,502                  | \$ —          | \$ —         | \$ —                 | \$ 3,502   |
| Total                                                   | \$ 3,502                  | \$ —          | \$ —         | \$ —                 | \$ 3,502   |
|                                                         |                           |               |              |                      |            |
| December 31, 2015                                       | Overnights and continuous | Up to 30 days | 30 - 90 days | Greater than 90 days | Total      |
| (\$ in thousands)                                       |                           |               |              |                      |            |
| <b>Securities sold under an agreement to repurchase</b> |                           |               |              |                      |            |
| Non-U.S. sovereign debt                                 | \$ —                      | \$ —          | \$ 8,944     | \$ —                 | \$ 8,944   |
| Total                                                   | \$ —                      | \$ —          | \$ 8,944     | \$ —                 | \$ 8,944   |
| <b>Securities lending transactions</b>                  |                           |               |              |                      |            |
| Corporate bonds                                         | \$ 112                    | \$ —          | \$ —         | \$ —                 | \$ 112     |
| Total                                                   | \$ 112                    | \$ —          | \$ —         | \$ —                 | \$ 112     |

## 6. Due from/to brokers

The Company holds substantially all of its investments through prime brokers pursuant to agreements between the Company and each prime broker. The brokerage arrangements differ from broker to broker, but generally cash and investments in securities balances are available as collateral against investments in securities sold, not yet purchased and derivative positions, if required.

As of March 31, 2016 and December 31, 2015, the Company's due from/to brokers were comprised of the following:

|                                  | March 31,<br>2016 | December 31,<br>2015 |
|----------------------------------|-------------------|----------------------|
|                                  | (\$ in thousands) |                      |
| <b>Due from brokers</b>          |                   |                      |
| Cash held at brokers (1)         | \$ 313,083        | \$ 249,871           |
| Receivable from unsettled trades | 111,122           | 77,100               |
|                                  | <u>\$ 424,205</u> | <u>\$ 326,971</u>    |
| <b>Due to brokers</b>            |                   |                      |
| Borrowing from prime brokers     | \$ 857,709        | \$ 572,688           |
| Payable from unsettled trades    | 102,994           | 2,274                |
|                                  | <u>\$ 960,703</u> | <u>\$ 574,962</u>    |

(1) As of March 31, 2016, the Company's cash held at brokers includes a total non-U.S. currency receivable balance of \$7.8 million (December 31, 2015 - receivable of \$9.8 million).

The Company uses prime brokerage arrangements to provide collateral for its letter of credit facilities and to fund trust accounts securing certain reinsurance contracts. As of March 31, 2016, the Company had \$714.9 million (December 31, 2015 - \$623.0 million) of restricted cash and investments securing letter of credit facilities and certain reinsurance contracts. Margin debt at the brokers primarily relates to borrowings to fund collateral arrangements and investment activity. Amounts are borrowed through committed facilities with terms of up to 90 days, secured by assets of the Company held by the prime broker, and incur interest based on the Company's negotiated rates. This interest expense is reflected in net investment income (loss) in the condensed consolidated statements of income (loss).

## 7. Derivatives

The following tables identify the listing currency, fair value and notional amounts of derivative instruments included in the condensed consolidated balance sheets, categorized by primary underlying risk. Balances are presented on a gross basis.

| As of March 31, 2016                                         |                                 |                  |                      |
|--------------------------------------------------------------|---------------------------------|------------------|----------------------|
|                                                              | Listing currency (1)            | Fair Value       | Notional Amounts (2) |
| (\$ in thousands)                                            |                                 |                  |                      |
| <b>Derivative Assets by Primary Underlying Risk</b>          |                                 |                  |                      |
| <b>Commodity Price</b>                                       |                                 |                  |                      |
| Commodity Future Options - Purchased                         | USD                             | \$ 4,181         | \$ 76,300            |
| <b>Credit</b>                                                |                                 |                  |                      |
| Credit Default Swaps - Protection Purchased                  | USD                             | 15,804           | 106,701              |
| <b>Equity Price</b>                                          |                                 |                  |                      |
| Contracts for Differences - Long Contracts                   | EUR                             | 397              | 6,925                |
| Contracts for Differences - Short Contracts                  | CHF/EUR/GBP/JPY                 | 2,075            | 31,338               |
| Total Return Swaps - Long Contracts                          | JPY/USD                         | 3,156            | 45,646               |
| Total Return Swaps - Short Contracts                         | AUD/JPY/MXN/USD                 | 321              | 3,669                |
| <b>Foreign Currency Exchange Rates</b>                       |                                 |                  |                      |
| Foreign Currency Options - Purchased                         | EUR/SAR                         | 943              | 207,448              |
| <b>Total Derivative Assets</b>                               |                                 | <u>\$ 26,877</u> | <u>\$ 478,027</u>    |
|                                                              | Listing currency (1)            | Fair Value       | Notional Amounts (2) |
| (\$ in thousands)                                            |                                 |                  |                      |
| <b>Derivative Liabilities by Primary Underlying Risk</b>     |                                 |                  |                      |
| <b>Credit</b>                                                |                                 |                  |                      |
| Credit Default Swaps - Protection Purchased                  | EUR/USD                         | \$ 3,321         | \$ 49,089            |
| Credit Default Swaps - Protection Sold                       | USD                             | 2,185            | 7,053                |
| <b>Equity Price</b>                                          |                                 |                  |                      |
| Contracts for Differences - Long Contracts                   | GBP/USD                         | 1,442            | 9,572                |
| Contracts for Differences - Short Contracts                  | CHF/EUR/GBP/USD                 | 5,905            | 86,400               |
| Total Return Swaps - Long Contracts                          | JPY/USD                         | 1,516            | 5,455                |
| Total Return Swaps - Short Contracts                         | AUD/HKD/JPY/<br>MXN/USD         | 2,608            | 31,632               |
| <b>Interest Rates</b>                                        |                                 |                  |                      |
| Fixed Income Swap - Short Contracts                          | USD                             | 72               | 3,160                |
| <b>Foreign Currency Exchange Rates</b>                       |                                 |                  |                      |
| Foreign Currency Forward Contracts                           | CAD/CNH/EUR/<br>GBP/JPY/MXN/SAR | 11,466           | 250,159              |
| Foreign Currency Options - Sold                              | SAR                             | 9                | 38,090               |
| <b>Total Derivative Liabilities (free standing)</b>          |                                 | <u>\$ 28,524</u> | <u>\$ 480,610</u>    |
| Embedded derivative liabilities in reinsurance contracts (3) | USD                             | \$ 5,328         | \$ 20,000            |
| <b>Total Derivative Liabilities (embedded)</b>               |                                 | <u>\$ 5,328</u>  | <u>\$ 20,000</u>     |

- (1) AUD = Australian Dollar, CAD = Canadian Dollar, CHF = Swiss Franc, CNH = Chinese Yuan, EUR = Euro, GBP = British Pound, HKD = Hong Kong Dollar, JPY = Japanese Yen, MXN = Mexican Peso, SAR = Saudi Arabian Riyal, USD = US Dollar
- (2) The absolute notional exposure represents the Company's derivative activity as of March 31, 2016, which is representative of the volume of derivatives held during the period.
- (3) The fair value of embedded derivatives in reinsurance contracts is included in reinsurance balances payable in the condensed consolidated balance sheet.

As of December 31, 2015

|                                                              | <u>Listing currency (1)</u> | <u>Fair Value</u> | <u>Notional Amounts (2)</u> |
|--------------------------------------------------------------|-----------------------------|-------------------|-----------------------------|
|                                                              |                             | (\$ in thousands) |                             |
| <b>Derivative Assets by Primary Underlying Risk</b>          |                             |                   |                             |
| <b>Credit</b>                                                |                             |                   |                             |
| Credit Default Swaps - Protection Purchased                  | EUR/USD                     | \$ 21,692         | \$ 183,125                  |
| <b>Equity Price</b>                                          |                             |                   |                             |
| Contracts for Differences - Long Contracts                   | EUR/GBP/USD                 | 631               | 41,686                      |
| Contracts for Differences - Short Contracts                  | CHF/EUR/GBP/JPY/<br>NOK/USD | 5,884             | 80,027                      |
| Total Return Swaps - Long Contracts                          | USD                         | 415               | 58,799                      |
| Total Return Swaps - Short Contracts                         | JPY/USD                     | 466               | 9,457                       |
| <b>Interest Rates</b>                                        |                             |                   |                             |
| Commodity Futures - Short Contracts                          | USD                         | 71                | 17,501                      |
| Interest Rate Swaptions                                      | JPY/USD                     | 90                | 43,831                      |
| <b>Foreign Currency Exchange Rates</b>                       |                             |                   |                             |
| Foreign Currency Forward Contracts                           | CAD/EUR/GBP/<br>MXN/SAR     | 1,947             | 155,518                     |
| Foreign Currency Options - Purchased                         | CNH/EUR/SAR                 | 4,141             | 193,613                     |
| <b>Total Derivative Assets</b>                               |                             | <u>\$ 35,337</u>  | <u>\$ 783,557</u>           |
|                                                              | <u>Listing currency (1)</u> | <u>Fair Value</u> | <u>Notional Amounts (2)</u> |
|                                                              |                             | (\$ in thousands) |                             |
| <b>Derivative Liabilities by Primary Underlying Risk</b>     |                             |                   |                             |
| <b>Credit</b>                                                |                             |                   |                             |
| Credit Default Swaps - Protection Purchased                  | EUR/USD                     | \$ 3,449          | \$ 38,455                   |
| Credit Default Swaps - Protection Sold                       | GBP/EUR/USD                 | 2,054             | 6,436                       |
| <b>Equity Price</b>                                          |                             |                   |                             |
| Contracts for Differences - Long Contracts                   | EUR/GBP/USD                 | 1,111             | 2,311                       |
| Contracts for Differences - Short Contracts                  | EUR/GBP/USD                 | 3,411             | 50,471                      |
| Total Return Swaps - Long Contracts                          | JPY/USD                     | 3,430             | 163,224                     |
| Total Return Swaps - Short Contracts                         | AUD/JPY/USD                 | 386               | 19,318                      |
| <b>Interest Rates</b>                                        |                             |                   |                             |
| Commodity Futures - Short Contracts                          | USD                         | 18                | 13,069                      |
| Interest Rate Swaptions                                      | USD                         | 17                | 87,499                      |
| <b>Foreign Currency Exchange Rates</b>                       |                             |                   |                             |
| Foreign Currency Forward Contracts                           | JPY/SAR                     | 1,041             | 87,127                      |
| Foreign Currency Options - Sold                              | CNH/SAR                     | 475               | 118,415                     |
| <b>Total Derivative Liabilities (free standing)</b>          |                             | <u>\$ 15,392</u>  | <u>\$ 586,325</u>           |
| Embedded derivative liabilities in reinsurance contracts (3) | USD                         | \$ 5,563          | \$ 20,000                   |
| <b>Total Derivative Liabilities (embedded)</b>               |                             | <u>\$ 5,563</u>   | <u>\$ 20,000</u>            |

- (1) AUD = Australian Dollar, CAD = Canadian Dollar, EUR = Euro, GBP = British Pound, JPY = Japanese Yen, KRW = South Korean Won, NOK = Norwegian Krone, SAR = Saudi Arabian Riyal, USD = US Dollar
- (2) The absolute notional exposure represents the Company's derivative activity as of December 31, 2015, which is representative of the volume of derivatives held during the period.
- (3) The fair value of embedded derivatives in reinsurance contracts is included in reinsurance balances payable in the condensed consolidated balance sheet.

The following table sets forth, by major risk type, the Company's realized and unrealized gains (losses) relating to derivatives for the three months ended March 31, 2016 and 2015. Realized and unrealized gains (losses) related to free standing derivatives are included in net investment income (loss) in the condensed consolidated statements of income (loss). Realized and unrealized gains (losses) related to embedded derivatives are included in other expenses in the condensed consolidated statements of income (loss).

|                                                            | Three months ended      |                            |                         |                            |
|------------------------------------------------------------|-------------------------|----------------------------|-------------------------|----------------------------|
|                                                            | 2016                    |                            | 2015                    |                            |
|                                                            | Realized Gain<br>(Loss) | Unrealized<br>Gain (Loss)* | Realized Gain<br>(Loss) | Unrealized<br>Gain (Loss)* |
| <b>Free standing Derivatives - Primary Underlying Risk</b> |                         |                            |                         |                            |
| <b>Commodity Price</b>                                     | (\$ in thousands)       |                            |                         |                            |
| Commodity Future Options - Purchased                       | \$ (253)                | \$ (580)                   | \$ (286)                | \$ 285                     |
| Commodity Future Options - Sold                            | —                       | —                          | 272                     | (269)                      |
| <b>Credit</b>                                              |                         |                            |                         |                            |
| Credit Default Swaps - Protection Purchased                | 7,685                   | (7,024)                    | 344                     | (358)                      |
| Credit Default Swaps - Protection Sold                     | (4,358)                 | 4,444                      | 1,653                   | (1,660)                    |
| <b>Equity Price</b>                                        |                         |                            |                         |                            |
| Contracts for Differences - Long Contracts                 | (725)                   | (564)                      | (303)                   | 1,443                      |
| Contracts for Differences - Short Contracts                | 2,253                   | (6,303)                    | (2,869)                 | (1,171)                    |
| Total Return Swaps - Long Contracts                        | (10,518)                | 4,657                      | (2,165)                 | 2,496                      |
| Total Return Swaps - Short Contracts                       | 1,228                   | (2,368)                    | 403                     | 436                        |
| <b>Index</b>                                               |                         |                            |                         |                            |
| Index Futures - Long Contracts                             | —                       | —                          | 579                     | 243                        |
| <b>Interest Rates</b>                                      |                         |                            |                         |                            |
| Commodities Futures - Short Contracts                      | (1,152)                 | (52)                       | (201)                   | 143                        |
| Fixed Income Swap - Short Contracts                        | 22                      | (72)                       | —                       | —                          |
| Interest Rate Swaptions                                    | (112)                   | 39                         | —                       | (149)                      |
| Treasury Futures - Short Contracts                         | —                       | —                          | (445)                   | 206                        |
| <b>Foreign Currency Exchange Rates</b>                     |                         |                            |                         |                            |
| Foreign Currency Forward                                   | (3,096)                 | (12,373)                   | 25,726                  | (7,579)                    |
| Foreign Currency Options - Purchased                       | (1,181)                 | (1,972)                    | 485                     | (668)                      |
| Foreign Currency Options - Sold                            | 505                     | (81)                       | (29)                    | 503                        |
|                                                            | <u>\$ (9,702)</u>       | <u>\$ (22,249)</u>         | <u>\$ 23,164</u>        | <u>\$ (6,099)</u>          |
| <b>Embedded Derivatives</b>                                |                         |                            |                         |                            |
| Embedded derivatives in reinsurance contracts              | \$ —                    | \$ 235                     | \$ (5)                  | \$ (115)                   |
| Embedded derivatives in deposit contracts                  | —                       | —                          | —                       | (180)                      |
| <b>Total Derivative Liabilities (embedded)</b>             | <u>\$ —</u>             | <u>\$ 235</u>              | <u>\$ (5)</u>           | <u>\$ (295)</u>            |

\*Unrealized gain (loss) relates to derivatives still held at reporting date.

The Company's derivative contracts are generally subject to the International Swaps and Derivatives Association ("ISDA") Master Agreements or other similar agreements that contain provisions setting forth events of default and/or termination events ("credit-risk-related contingent features"), including but not limited to provisions setting forth maximum permissible declines in the Company's net asset value. Upon the occurrence of a termination event with respect to an ISDA Agreement, the Company's counterparty could elect to terminate the derivative contracts governed by such agreement, resulting in the realization of any net gains or losses with respect to such derivative contracts and the return of collateral held by such party.

The Company obtains/provides collateral from/to various counterparties for OTC derivative contracts in accordance with bilateral collateral agreements. As of March 31, 2016, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position was \$14.9 million (December 31, 2015 - \$1.8 million) for which the Company posted collateral in the form of cash of \$91.9 million (December 31, 2015 - \$62.6 million) of collateral in the normal course of business. Similarly, the Company held collateral (approximately \$3.7 million) in cash from certain counterparties as of March 31, 2016. If the credit-risk-related contingent features underlying these instruments had been triggered as of March 31, 2016 and the Company had to settle these instruments immediately, no additional amounts would be required to be posted that would exceed the settlement amounts of open derivative

contracts or in the case of cross margining relationships, the assets in the Company's prime brokerage accounts are sufficient to offset the derivative liabilities.

The Company's derivatives do not qualify as hedges for financial reporting purposes and are recorded in the condensed consolidated financial statements on a gross basis and not offset against any collateral pledged or received. Pursuant to ISDA master agreements and other counterparty agreements, the Company and its counterparties typically have the ability to net certain payments owed to each other in specified circumstances. In addition, in the event a party to one of the ISDA master agreements or other derivatives agreements defaults, or a transaction is otherwise subject to termination, the non-defaulting party generally has the right to offset against payments owed to the defaulting party or collateral held by the non-defaulting party.

The Company does not offset its derivative instruments and presents all amounts in the condensed consolidated balance sheets on a gross basis. The Company has pledged cash collateral to counterparties to support the current value of amounts due to the counterparties based on the value of the underlying security. As of March 31, 2016 and December 31, 2015, the gross and net amounts of derivative instruments and repurchase and reverse repurchase agreements that are subject to enforceable master netting arrangements or similar agreements were as follows:

| March 31, 2016<br>Derivative Contracts                                 | Gross Amounts not Offset in the Condensed Consolidated Balance Sheet                          |                          |                             |                 |
|------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|--------------------------|-----------------------------|-----------------|
|                                                                        | Gross Amounts of<br>Assets Presented<br>in the Condensed<br>Consolidated<br>Balance Sheet (1) | Financial<br>Instruments | Cash Collateral<br>Received | Net Amount      |
| <b>Financial assets, derivative assets and<br/>collateral received</b> | (\$ in thousands)                                                                             |                          |                             |                 |
| Counterparty 1                                                         | \$ 335                                                                                        | \$ 335                   | \$ —                        | \$ —            |
| Counterparty 2                                                         | 958                                                                                           | 958                      | —                           | —               |
| Counterparty 3                                                         | 9,597                                                                                         | 9,470                    | —                           | 127             |
| Counterparty 4                                                         | 2,605                                                                                         | 2,605                    | —                           | —               |
| Counterparty 5                                                         | 5,900                                                                                         | 5,900                    | —                           | —               |
| Counterparty 6                                                         | 8,507                                                                                         | 2,445                    | 3,606                       | 2,456           |
| Counterparty 7                                                         | 28                                                                                            | —                        | 24                          | 4               |
| Counterparty 8                                                         | 1,965                                                                                         | 1,894                    | —                           | 71              |
| Counterparty 9                                                         | 1,622                                                                                         | 1,622                    | —                           | —               |
|                                                                        | <u>\$ 31,517</u>                                                                              | <u>\$ 25,229</u>         | <u>\$ 3,630</u>             | <u>\$ 2,658</u> |

| Gross Amounts not Offset in the Condensed Consolidated Balance Sheet            |                                                                                                       |                          |                            |               |
|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|--------------------------|----------------------------|---------------|
| March 31, 2016<br>Derivative Contracts                                          | Gross Amounts of<br>Liabilities<br>Presented in the<br>Condensed<br>Consolidated<br>Balance Sheet (2) | Financial<br>Instruments | Cash Collateral<br>Pledged | Net Amount    |
| <b>Financial liabilities, derivative liabilities<br/>and collateral pledged</b> | (\$ in thousands)                                                                                     |                          |                            |               |
| Counterparty 1                                                                  | \$ 3,924                                                                                              | \$ 335                   | \$ 3,589                   | \$ —          |
| Counterparty 2                                                                  | 2,336                                                                                                 | 958                      | 1,378                      | —             |
| Counterparty 3                                                                  | 9,470                                                                                                 | 9,470                    | —                          | —             |
| Counterparty 4                                                                  | 3,061                                                                                                 | 2,605                    | 456                        | —             |
| Counterparty 5                                                                  | 10,041                                                                                                | 5,900                    | 4,141                      | —             |
| Counterparty 6                                                                  | 2,445                                                                                                 | 2,445                    | —                          | —             |
| Counterparty 8                                                                  | 2,114                                                                                                 | 1,894                    | —                          | 220           |
| Counterparty 9                                                                  | 5,981                                                                                                 | 1,622                    | 4,359                      | —             |
| Counterparty 10                                                                 | 467                                                                                                   | —                        | 467                        | —             |
| Counterparty 14                                                                 | 259                                                                                                   | —                        | 259                        | —             |
| Counterparty 15                                                                 | 61                                                                                                    | —                        | 53                         | 8             |
|                                                                                 | <u>\$ 40,159</u>                                                                                      | <u>\$ 25,229</u>         | <u>\$ 14,702</u>           | <u>\$ 228</u> |

**Securities sold under an agreement to  
repurchase and securities lending  
transactions**

|                |                   |                   |             |              |
|----------------|-------------------|-------------------|-------------|--------------|
| Counterparty 3 | \$ 3,514          | \$ 3,502          | \$ —        | \$ 12        |
| Counterparty 4 | 170,305           | 170,305           | —           | —            |
| Total          | <u>\$ 173,819</u> | <u>\$ 173,807</u> | <u>\$ —</u> | <u>\$ 12</u> |

- (1) The Gross Amounts of Assets Presented in the Condensed Consolidated Balance Sheets presented above includes the fair value of Derivative Contract assets as well as gross OTC option contract assets of \$4.6 million included in Other Investments in the Condensed Consolidated Balance Sheets.
- (2) The Gross Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheets presented above includes the fair value of Derivative Contract liabilities as well as gross OTC option contract liabilities of \$11.6 million included in Securities sold, not yet purchased in the Condensed Consolidated Balance Sheets.

| Gross Amounts not Offset in the Condensed Consolidated Balance Sheet   |                                                                                               |                          |                             |                  |
|------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|--------------------------|-----------------------------|------------------|
| December 31, 2015<br>Derivative Contracts                              | Gross Amounts of<br>Assets Presented<br>in the Condensed<br>Consolidated<br>Balance Sheet (1) | Financial<br>Instruments | Cash Collateral<br>Received | Net Amount       |
| <b>Financial assets, derivative assets and<br/>collateral received</b> | (\$ in thousands)                                                                             |                          |                             |                  |
| Counterparty 1                                                         | \$ 2,171                                                                                      | \$ 2,171                 | \$ —                        | \$ —             |
| Counterparty 2                                                         | 4,959                                                                                         | 1,243                    | —                           | 3,716            |
| Counterparty 3                                                         | 6,347                                                                                         | 2,335                    | —                           | 4,012            |
| Counterparty 4                                                         | 3,679                                                                                         | 2,656                    | —                           | 1,023            |
| Counterparty 5                                                         | 14,181                                                                                        | 4,027                    | —                           | 10,154           |
| Counterparty 6                                                         | 7,351                                                                                         | 1,657                    | 1,993                       | 3,701            |
| Counterparty 7                                                         | 882                                                                                           | —                        | 194                         | 688              |
| Counterparty 8                                                         | 2,669                                                                                         | 2,669                    | —                           | —                |
| Counterparty 9                                                         | 2,009                                                                                         | 542                      | —                           | 1,467            |
|                                                                        | <u>\$ 44,248</u>                                                                              | <u>\$ 17,300</u>         | <u>\$ 2,187</u>             | <u>\$ 24,761</u> |

**Gross Amounts not Offset in the Condensed Consolidated Balance Sheet**

| December 31, 2015<br>Derivative Contracts                                                           | Gross Amounts of<br>Liabilities<br>Presented in the<br>Condensed<br>Consolidated<br>Balance Sheet (2) |        |    |        | Financial<br>Instruments | Cash Collateral<br>Pledged | Net Amount |
|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|--------|----|--------|--------------------------|----------------------------|------------|
| <b>Financial liabilities, derivative liabilities<br/>and collateral pledged</b>                     | (\$ in thousands)                                                                                     |        |    |        |                          |                            |            |
| Counterparty 1                                                                                      | \$                                                                                                    | 2,626  | \$ | 2,171  | \$                       | 455                        | \$ —       |
| Counterparty 2                                                                                      |                                                                                                       | 1,243  |    | 1,243  |                          | —                          | —          |
| Counterparty 3                                                                                      |                                                                                                       | 2,335  |    | 2,335  |                          | —                          | —          |
| Counterparty 4                                                                                      |                                                                                                       | 2,816  |    | 2,656  |                          | 160                        | —          |
| Counterparty 5                                                                                      |                                                                                                       | 4,028  |    | 4,028  |                          | —                          | —          |
| Counterparty 6                                                                                      |                                                                                                       | 1,657  |    | 1,657  |                          | —                          | —          |
| Counterparty 8                                                                                      |                                                                                                       | 3,659  |    | 2,669  |                          | —                          | 990        |
| Counterparty 9                                                                                      |                                                                                                       | 542    |    | 542    |                          | —                          | —          |
| Counterparty 15                                                                                     |                                                                                                       | 153    |    | 6      |                          | 147                        | —          |
|                                                                                                     | \$                                                                                                    | 19,059 | \$ | 17,307 | \$                       | 762                        | \$ 990     |
| <b>Securities sold under an agreement to<br/>repurchase and securities lending<br/>transactions</b> |                                                                                                       |        |    |        |                          |                            |            |
| Counterparty 3                                                                                      | \$                                                                                                    | 114    | \$ | —      | \$                       | 112                        | \$ 2       |
| Counterparty 4                                                                                      |                                                                                                       | 8,944  |    | 8,944  |                          | —                          | —          |
|                                                                                                     | \$                                                                                                    | 9,058  | \$ | 8,944  | \$                       | 112                        | \$ 2       |

- (1) The Gross Amounts of Assets Presented in the Condensed Consolidated Balance Sheets presented above includes the fair value of Derivative Contract assets as well as gross OTC option contract assets of \$8.9 million included in Other Investments in the Condensed Consolidated Balance Sheets.
- (2) The Gross Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheets presented above includes the fair value of Derivative Contract liabilities as well as gross OTC option contract liabilities of \$3.7 million included in Securities sold, not yet purchased in the Condensed Consolidated Balance Sheets.

## 8. Loss and loss adjustment expense reserves

As of March 31, 2016 and December 31, 2015, loss and loss adjustment expense reserves in the condensed consolidated balance sheets was comprised of the following:

|                                                                     | March 31,<br>2016 | December 31,<br>2015 |
|---------------------------------------------------------------------|-------------------|----------------------|
|                                                                     | (\$ in thousands) |                      |
| Case loss and loss adjustment expense reserves                      | \$ 92,611         | \$ 87,186            |
| Incurred but not reported loss and loss adjustment expense reserves | 394,182           | 375,690              |
| Deferred gains on retroactive reinsurance contracts                 | 3,114             | 3,171                |
|                                                                     | \$ 489,907        | \$ 466,047           |

The following table represents the activity in the loss and loss adjustment expense reserves for the three months ended March 31, 2016 and 2015:

|                                                                                                          | 2016              | 2015       |
|----------------------------------------------------------------------------------------------------------|-------------------|------------|
|                                                                                                          | (\$ in thousands) |            |
| Gross reserves for loss and loss adjustment expenses, beginning of period                                | \$ 466,047        | \$ 277,362 |
| Less: loss and loss adjustment expenses recoverable, beginning of period                                 | (125)             | (814)      |
| Net reserves for loss and loss adjustment expenses, beginning of period                                  | 465,922           | 276,548    |
| Increase (decrease) in net loss and loss adjustment expenses incurred in respect of losses occurring in: |                   |            |
| Current year                                                                                             | 79,549            | 83,647     |
| Prior years                                                                                              | 4,941             | (2,239)    |
| Amortization of deferred gains on retroactive reinsurance contracts                                      | 186               | 338        |
| Total incurred loss and loss adjustment expenses                                                         | 84,676            | 81,746     |
| Net loss and loss adjustment expenses paid in respect of losses occurring in:                            |                   |            |
| Current year                                                                                             | (6,097)           | (8,338)    |
| Prior years                                                                                              | (52,319)          | (75,909)   |
| Total net paid losses                                                                                    | (58,416)          | (84,247)   |
| Foreign currency translation                                                                             | (2,276)           | (518)      |
| Net reserve for loss and loss adjustment expenses, end of period                                         | 489,906           | 273,529    |
| Plus: loss and loss adjustment expenses recoverable, end of period                                       | 1                 | 408        |
| Gross reserve for loss and loss adjustment expenses, end of period                                       | \$ 489,907        | \$ 273,937 |

Changes in our loss and loss adjustment expense reserves result from re-estimating loss reserves and from changes in premium estimates. Furthermore, many of our contracts have sliding scale or profit commissions whereby loss reserve development can be offset by changes in acquisition costs that vary inversely with loss experience. In some instances, the Company can have loss reserve development on contracts where there is no sliding scale or profit commission or where the loss ratio falls outside of the loss ratio range to which the sliding scale or profit commission applies.

The \$4.9 million increase in prior years' reserves for the three months ended March 31, 2016 includes \$0.1 million of net favorable reserve development related to re-estimating loss reserves and \$5.0 million of additional loss reserves resulting from increases in premium estimates on certain contracts. The net increase in loss reserves as well as the impact of any offsetting changes in acquisition costs as a result of sliding scale or profit commissions is explained as follows:

- The \$0.1 million of net favorable prior years' reserve development for the three months ended March 31, 2016 was accompanied by net decreases of \$0.1 million in acquisition costs, resulting in a net decrease of \$0.2 million in net underwriting loss.
- The \$5.0 million increase in loss and loss adjustment expenses incurred related to the increase in premium estimates on certain contracts was accompanied by a \$3.0 million increase in acquisition costs, for a total of \$8.0 million increase in loss and loss adjustment expenses incurred and acquisition costs. The related increase in earned premium related to the increase in premium estimates was \$8.5 million, resulting in a \$0.5 million decrease in net underwriting loss for the three months ended March 31, 2016.
- In total, the change in net underwriting loss for prior periods due to loss reserve development and adjustments to premium estimates was a decrease of \$0.7 million for the three months ended March 31, 2016.

The \$2.2 million decrease in prior years' reserves for the three months ended March 31, 2015 reflects \$6.1 million of favorable reserve development partially offset by \$3.9 million resulting from increases in premium estimates on certain contracts. The prior years' reserve development is explained as follows:

- The \$6.1 million of favorable reserve development is offset by increases of \$7.1 million in acquisition costs primarily as a result of changes in the estimated split of the composite ratio between loss and loss adjustment expenses incurred and acquisition costs for certain contracts that have sliding scale commissions and profit commissions that vary inversely with loss experience. The net impact as a result of changes in prior years' reserves was an increase in net underwriting loss of \$1.0 million for the three months ended March 31, 2015.
- The \$3.9 million increase in loss and loss adjustment expenses incurred related to the increase in premium estimates on certain contracts was accompanied by a \$2.6 million increase in acquisition costs, for a total of \$6.5 million increase in loss and loss adjustment expenses incurred and acquisition costs. The related increase in earned premium related to the increase in premium estimates was \$6.5 million, resulting in an insignificant change in net underwriting loss for the three months ended March 31, 2015.
- In total, the change in net underwriting loss for prior periods due to loss reserve development and adjustments to premium estimates was an increase of \$1.0 million for the three months ended March 31, 2015.

## 9. Management, performance and founders fees

Third Point Reinsurance Ltd., Third Point Re and Third Point Re USA are party to Joint Venture and Investment Management Agreements (the "Investment Agreements") with Third Point LLC and Third Point Advisors LLC ("TP GP") under which Third Point LLC manages certain jointly held assets.

Pursuant to the Investment Agreements, TP GP receives a performance fee allocation equal to 20% of the net investment income of the applicable company's share of the investment assets managed by Third Point LLC. The performance fee accrued on net investment income is included in liabilities as a performance fee payable during the period, unless funds are redeemed from the Joint Venture accounts, in which case, the proportionate share of performance fee associated with the redemption is allocated to non-controlling interests. At the end of each year, the portion of the performance fee payable that has not been included in non-controlling interests through redemptions is then allocated to TP GP's capital account in accordance with the Investment Agreements.

The performance fee is subject to a loss carryforward provision pursuant to which TP GP is required to maintain a Loss Recovery Account which represents the sum of all prior period net loss amounts, not offset by prior year net profit amounts, and which is allocated to future profit amounts until the Loss Recovery Account has returned to a positive balance. Until such time, no performance fees are payable under the Investment Agreements. As of March 31, 2016, the Loss Recovery Account for Third Point Re's investment account was \$11.8 million (December 31, 2015 - \$5.0 million) and for Third Point Re USA's investment account was \$2.1 million (December 31, 2015 - \$1.2 million). These amounts have not been recorded in the Company's consolidated balance sheets.

Additionally, a total management fee equal to 2% annually of the Third Point Re's and Third Point Re USA's share of the investment assets managed by Third Point LLC is paid to Third Point LLC and certain founding investors. Management fees are paid monthly, whereas performance fees are paid annually, in arrears.

Investment fee expenses related to the Investment Agreements, which are included in net investment income (loss) in the condensed consolidated statements of income (loss) for the three months ended March 31, 2016 and 2015 are as follows:

|                                             | 2016              | 2015             |
|---------------------------------------------|-------------------|------------------|
|                                             | (\$ in thousands) |                  |
| Management fees - Third Point LLC           | \$ 1,521          | \$ 1,475         |
| Management fees - Founders (1)              | 8,621             | 8,356            |
| Performance fees - Third Point Advisors LLC | —                 | 15,844           |
|                                             | <u>\$ 10,142</u>  | <u>\$ 25,675</u> |

(1) KEP TP Bermuda Ltd., KIA TP Bermuda Ltd., Pine Brook LVR, L.P., PRE Opportunities Ltd. and Dowling Capital Partners I, L.P., receive a share of the management fees in proportion to their initial investments in Third Point Reinsurance Ltd.

As of March 31, 2016, there was no performance fee payable. As of December 31, 2015, \$0.9 million related to performance fees earned by TP GP were included in non-controlling interests.

## 10. Deposit contracts

The Company's deposit liability contracts generally contain a fixed interest crediting rate. Certain deposit contracts also contained a variable interest crediting feature based on actual investment returns realized by the Company that can increase the overall effective interest crediting rate on those contracts. These variable interest crediting features are considered embedded derivatives. The Company includes the estimated fair value of these embedded derivatives with the host deposit liability contracts. Changes in the estimated fair value of these embedded derivatives are recorded in other expenses in the condensed consolidated statements of income (loss).

The following table represents activity in the deposit liabilities for the three months ended March 31, 2016 and year ended December 31, 2015:

|                                                                                    | March 31,<br>2016 | December 31,<br>2015 |
|------------------------------------------------------------------------------------|-------------------|----------------------|
|                                                                                    | (\$ in thousands) |                      |
| Balance, beginning of period                                                       | \$ 83,955         | \$ 145,430           |
| Consideration received                                                             | 2,155             | 21,246               |
| Net investment expense allocation and change in fair value of embedded derivatives | 471               | 2,207                |
| Payments                                                                           | —                 | (84,928)             |
| Foreign currency translation                                                       | 13                | —                    |
| Balance, end of period                                                             | <u>\$ 86,594</u>  | <u>\$ 83,955</u>     |

## 11. Senior Notes payable and letter of credit facilities

### Senior Notes payable

As of March 31, 2016, TPRUSA had outstanding debt obligations consisting of an aggregate principal amount of \$115.0 million of senior unsecured notes (the "Notes") due February 13, 2025. The Notes bear interest at 7.0% and interest is payable semi-annually on February 13 and August 13 of each year. The Notes are fully and unconditionally guaranteed by Third Point Reinsurance Ltd., and, in certain circumstances specified in the indenture governing the Notes, certain existing or future subsidiaries of the Company may be required to guarantee the Notes. As of March 31, 2016, the Company had capitalized \$1.6 million of costs associated with the Notes, which are presented as a direct deduction from the principal amount of the Notes on the condensed consolidated balance sheets. As of March 31, 2016, the Notes had an estimated fair value of \$116.0 million. The fair value measurements were based on observable inputs and therefore would be considered to be Level 2. The Company was in compliance with all of the debt covenants as of March 31, 2016.

### Letters of credit

As of March 31, 2016, the Company had entered into the following letter of credit facilities:

|                | Facility          | Utilized          | Collateral        |
|----------------|-------------------|-------------------|-------------------|
| March 31, 2016 | (\$ in thousands) |                   |                   |
| BNP Paribas    | \$ 50,000         | \$ 17,990         | \$ 17,990         |
| Citibank       | 300,000           | 205,504           | 205,504           |
| J.P. Morgan    | 50,000            | 9                 | 9                 |
| Lloyds Bank    | 100,000           | 40,239            | 40,239            |
|                | <u>\$ 500,000</u> | <u>\$ 263,742</u> | <u>\$ 263,742</u> |

The Company's letter of credit facilities are bilateral agreements that generally renew on an annual basis. The letters of credit issued under the letter of credit facilities are fully collateralized. See Note 3 for additional information.

## 12. Net investment income (loss)

Net investment income (loss) for the three months ended March 31, 2016 and 2015 consisted of the following:

|                                                                                   | 2016               | 2015             |
|-----------------------------------------------------------------------------------|--------------------|------------------|
|                                                                                   | (\$ in thousands)  |                  |
| <b>Net investment income (loss) by type</b>                                       |                    |                  |
| Net realized gains on investments and investment derivatives                      | \$ 23,242          | \$ 53,283        |
| Net unrealized gains (losses) on investments and investment derivatives           | (54,842)           | 36,596           |
| Net losses on foreign currencies                                                  | (166)              | (3,470)          |
| Dividend and interest income                                                      | 7,672              | 7,362            |
| Dividends paid on securities sold, not yet purchased                              | (434)              | (119)            |
| Management and performance fees                                                   | (10,142)           | (25,675)         |
| Other expenses                                                                    | (5,687)            | (3,128)          |
| Net investment income (loss) on investments managed by Third Point LLC            | (40,357)           | 64,849           |
| Investment income on cash held by the Catastrophe Reinsurer and Catastrophe Fund  | —                  | 15               |
| Net gain on catastrophe bond held by Catastrophe Reinsurer                        | —                  | 10               |
| Net gain on investment in Kiskadee Fund                                           | 247                | 44               |
|                                                                                   | <u>\$ (40,110)</u> | <u>\$ 64,918</u> |
|                                                                                   | 2016               | 2015             |
|                                                                                   | (\$ in thousands)  |                  |
| <b>Net investment income (loss) by asset class</b>                                |                    |                  |
| Net investment gains (losses) on equity securities                                | \$ (2,231)         | \$ 35,752        |
| Net investment gains on debt securities                                           | 12,149             | 41,873           |
| Net investment losses on other investments                                        | (8,496)            | (13,475)         |
| Net investment gains (losses) on investment derivatives                           | (31,951)           | 17,065           |
| Net investment gains on securities sold, not yet purchased                        | 4,304              | 14,352           |
| Net investment loss on cash, including foreign exchange losses                    | (1,715)            | (1,255)          |
| Net investment losses on securities purchased under an agreement to resell        | —                  | (2,952)          |
| Net investment gains (losses) on securities sold under an agreement to repurchase | (697)              | 315              |
| Management and performance fees                                                   | (10,142)           | (25,675)         |
| Other investment expenses                                                         | (1,331)            | (1,082)          |
|                                                                                   | <u>\$ (40,110)</u> | <u>\$ 64,918</u> |

## 13. Other expenses

Other expenses for the three months ended March 31, 2016 and 2015 consisted of the following:

|                                                                                   | 2016              | 2015            |
|-----------------------------------------------------------------------------------|-------------------|-----------------|
|                                                                                   | (\$ in thousands) |                 |
| Deposit liabilities investment expense                                            | \$ 471            | \$ 631          |
| Reinsurance contracts investment expense                                          | 2,470             | 1,770           |
| Change in fair value of embedded derivatives in deposit and reinsurance contracts | (235)             | 300             |
|                                                                                   | <u>\$ 2,706</u>   | <u>\$ 2,701</u> |

## 14. Income taxes

We provide for income tax expense or benefit based upon pre-tax income or loss reported in the condensed consolidated financial statements and the provisions of currently enacted tax laws. The Company and its Bermuda subsidiaries are

incorporated under the laws of Bermuda and are subject to Bermuda law with respect to taxation. Under current Bermuda law, the Company and its Bermuda subsidiaries are not subject to any income or capital gains taxes in Bermuda. In the event that such taxes are imposed, the Company and its Bermuda subsidiaries would be exempted from any such taxes until March 2035 under the Tax Assurance Certificates issued to such entities pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966, as amended.

The Company has an operating subsidiary incorporated in Bermuda, Third Point Re USA, which made an election to pay tax in the United States of America under Section 953(d) of the U.S. Internal Revenue Code of 1986, as amended. The operations of Third Point Re USA will be subject to U.S. federal income taxes generally at a rate of 35%. Our non-U.S. subsidiaries would become subject to U.S. federal income tax only to the extent that they derive income from activity that is deemed to be the conduct of a trade or business within the United States.

The Company also has subsidiaries in the United Kingdom, TPRUK and TPRUK Holdings, which are subject to applicable taxes in that jurisdiction.

The Company is subject to withholding taxes on income sourced in the United States and in other countries, subject to each country's specific tax regulations. Income subject to withholding taxes includes, but is not limited to, dividends, capital gains and interest on certain investments.

The Company has recorded uncertain tax positions related to investment transactions in certain foreign jurisdictions. As of March 31, 2016, the Company has accrued \$1.6 million for uncertain tax positions.

For the three months ended March 31, 2016 and 2015, the Company recorded income tax expense (benefit), as follows:

|                                                                    | 2016              | 2015            |
|--------------------------------------------------------------------|-------------------|-----------------|
|                                                                    | (\$ in thousands) |                 |
| Income tax expense (benefit) related to U.S. and U.K. subsidiaries | \$ (3,120)        | \$ 478          |
| Withholding taxes on certain investment transactions               | 1,191             | 827             |
|                                                                    | <u>\$ (1,929)</u> | <u>\$ 1,305</u> |

(1) As of March 31, 2016, the Company has recorded \$9.8 million (December 31, 2015 - \$6.6 million) of net deferred tax assets, which is included in other assets in the condensed consolidated balance sheets. As of March 31, 2016 and December 31, 2015, the net deferred tax asset was primarily the result of investment losses in the Company's U.S. subsidiaries. The Company believes that it is more likely than not that the tax benefit will be realized.

## 15. Share capital

### Authorized and issued

The Company's authorized share capital of \$33.0 million is comprised of 300,000,000 common shares with a par value of \$0.10 each and 30,000,000 preference shares with a par value of \$0.10 each. As of March 31, 2016, 106,213,131 (December 31, 2015 - 105,479,341) common shares were issued and outstanding. No preference shares have been issued to date.

## 16. Share-based compensation

On July 15, 2013, the Third Point Reinsurance Ltd. 2013 Omnibus Incentive Plan ("Omnibus Plan") was approved by the Board of Directors and subsequently on August 2, 2013 by the Shareholders of the Company. An aggregate of 21,627,906 common shares were made available under the Omnibus Plan. This number of shares includes the shares available under the Third Point Reinsurance Ltd. Share Incentive Plan ("Share Incentive Plan"). Awards under the Omnibus Plan may be made in the form of performance awards, restricted shares, restricted share units, share options, share appreciation rights and other share-based awards.

The following table provides the total share-based compensation expense included in general and administrative expenses during the three months ended March 31, 2016 and 2015:

|                                                          | 2016              | 2015            |
|----------------------------------------------------------|-------------------|-----------------|
|                                                          | (\$ in thousands) |                 |
| Management and director options                          | \$ 1,555          | \$ 1,644        |
| Restricted shares with service condition                 | 206               | 793             |
| Restricted shares with service and performance condition | 890               | 646             |
|                                                          | <u>\$ 2,651</u>   | <u>\$ 3,083</u> |

As of March 31, 2016, the Company had \$15.4 million (December 31, 2015 - \$13.1 million) of unamortized share compensation expense, which is expected to be amortized over a weighted average period of 1.5 years (December 31, 2015 - 1.3 years).

### *Management and director options*

The management and director options activity for the three months ended March 31, 2016 and year ended December 31, 2015 were as follows:

|                                  | Number of options | Weighted average exercise price |
|----------------------------------|-------------------|---------------------------------|
| Balances as of January 1, 2015   | 10,990,841        | \$ 13.41                        |
| Forfeited                        | (306,976)         | 14.36                           |
| Exercised                        | <u>(433,279)</u>  | 10.00                           |
| Balances as of December 31, 2015 | 10,250,586        | 13.52                           |
| Exercised                        | <u>(79,832)</u>   | 10.00                           |
| Balances as of March 31, 2016    | <u>10,170,754</u> | \$ 13.55                        |

As of March 31, 2016, the weighted average remaining contractual term for options outstanding was 5.8 years (December 31, 2015 - 6.0 years).

The following table summarizes information about the Company's management and director share options outstanding as of March 31, 2016:

| Range of exercise prices | Options outstanding |                                 |                            | Options exercisable |                                 |
|--------------------------|---------------------|---------------------------------|----------------------------|---------------------|---------------------------------|
|                          | Number of options   | Weighted average exercise price | Remaining contractual life | Number of options   | Weighted average exercise price |
| \$10.00 - \$10.89        | 5,708,560           | \$ 10.03                        | 5.79                       | 4,369,025           | \$ 10.02                        |
| \$15.05 - \$16.89        | 2,265,981           | 15.94                           | 5.81                       | 1,693,890           | 15.97                           |
| \$20.00 - \$25.05        | <u>2,196,213</u>    | 20.22                           | 5.75                       | <u>1,665,983</u>    | 20.12                           |
|                          | <u>10,170,754</u>   | \$ 13.55                        | 5.79                       | <u>7,728,898</u>    | \$ 13.50                        |

### *Restricted shares with service condition*

Restricted shares with service condition vest either ratably or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment or service and transferability. As of March 31, 2016, there were 301,043 (December 31, 2015 - 301,043) outstanding restricted shares with service condition.

### ***Restricted shares with service and performance condition***

Restricted share award activity for the restricted shares with a service and performance condition for the three months ended March 31, 2016 and year ended December 31, 2015 was as follows:

|                                                                      | Number of non-vested restricted shares | Number of non-vested restricted shares probable of vesting | Weighted average grant date fair value |
|----------------------------------------------------------------------|----------------------------------------|------------------------------------------------------------|----------------------------------------|
| Balance as of January 1, 2015                                        | 459,746                                | 306,496                                                    | 14.60                                  |
| Granted                                                              | 514,276                                | 342,846                                                    | 14.00                                  |
| Forfeited                                                            | (52,469)                               | (34,980)                                                   | 14.29                                  |
| Change in estimated restricted shares considered probable of vesting | —                                      | (78,128)                                                   | 14.60                                  |
| Balance as of December 31, 2015                                      | 921,553                                | 536,234                                                    | 14.24                                  |
| Granted                                                              | 653,958                                | 435,971                                                    | 11.40                                  |
| Balance as of March 31, 2016                                         | 1,575,511                              | 972,205                                                    | 12.96                                  |

### **17. Non-controlling interests**

Non-controlling interests represent the portion of equity in consolidated subsidiaries not attributable, directly or indirectly, to the Company. The ownership interests in consolidated subsidiaries held by parties other than the Company have been presented in the condensed consolidated balance sheets as a separate component of shareholders' equity. Non-controlling interest as of March 31, 2016 and December 31, 2015 is as follows:

|                                                | March 31, 2016    | December 31, 2015 |
|------------------------------------------------|-------------------|-------------------|
|                                                | (\$ in thousands) |                   |
| Joint Venture - Third Point Advisors LLC share | \$ 15,888         | \$ 16,157         |
|                                                | <u>\$ 15,888</u>  | <u>\$ 16,157</u>  |

Income (loss) attributable to non-controlling interests for the three months ended March 31, 2016 and 2015 was as follows:

|                                                | 2016              | 2015          |
|------------------------------------------------|-------------------|---------------|
|                                                | (\$ in thousands) |               |
| Catastrophe Fund                               | \$ —              | \$ (48)       |
| Catastrophe Fund Manager                       | —                 | (32)          |
| Joint Venture - Third Point Advisors LLC share | (269)             | 643           |
|                                                | <u>\$ (269)</u>   | <u>\$ 563</u> |

As of March 31, 2016, the joint ventures created through the Investment Agreements (Note 9) have been considered variable interest entities and have been consolidated in accordance with ASC 810, *Consolidation* (ASC 810). Since the Company was deemed to be the primary beneficiary, the Company has consolidated the joint ventures and has recorded TP GP's minority interests as a non-controlling interest in the condensed consolidated statements of shareholders' equity.

For the three months ended March 31, 2016, no distributions (2015 - \$25.0 million) were made to TP GP.

As of March 31, 2016, the following entities were not consolidated as per ASC 810:

#### **a) TP Lux Holdco LP**

The Company is a limited partner in TP Lux Holdco LP (the "Cayman HoldCo"), which is an affiliate of the Investment Manager. The Cayman HoldCo was formed as a limited partnership under the laws of the Cayman Islands and invests and holds debt and equity interests in TP Lux HoldCo S.a.r.l, a Luxembourg private limited

liability company (the “LuxCo”) established under the laws of the Grand-Duchy of Luxembourg, which is also an affiliate of the Investment Manager.

LuxCo’s principal objective is to act as a collective investment vehicle to purchase Euro debt and equity investments. The Company invests in the Cayman HoldCo alongside other investment funds managed by the Investment Manager. As of March 31, 2016, Third Point Re held a 15.1% (December 31, 2015 - 10.8%) interest in the Cayman HoldCo. The Company accounts for its investment in the limited partnership under the variable interest model, in which the Company is not the primary beneficiary, at fair value in the condensed consolidated balance sheets. The Company has elected the fair value option for this investment and records changes in fair value in the condensed consolidated statements of income (loss).

As of March 31, 2016, the estimated fair value of the investment in the limited partnership was \$3.0 million (December 31, 2015 - \$2.4 million). The Cayman HoldCo made net distributions of \$0.04 million to the Company during the period ended March 31, 2016 due to the disposition of underlying investments. The valuation policy with respect to this investment in a limited partnership is further described in Note 4. The Company’s maximum exposure to loss as a result of its involvement with this investment is limited to the carrying value of the investment.

b) Third Point Hellenic Recovery US Feeder Fund, L.P.

Third Point Re is a limited partner in Third Point Hellenic Recovery US Feeder Fund, L.P. (“Hellenic Fund”), which is an affiliate of the Investment Manager. The Hellenic Fund was formed as a limited partnership under the laws of the Cayman Islands on April 12, 2013 and invests and holds debt and equity interests.

Third Point Re has committed to invest \$11.4 million (December 31, 2015 - \$11.4 million) in the Hellenic Fund. No capital distributions or calls were made during the three months ended March 31, 2016 and 2015.

As of March 31, 2016, the estimated fair value of Third Point Re’s investment in the Hellenic Fund was \$5.4 million (December 31, 2015 - \$5.4 million), representing a 3.0% interest (December 31, 2015 - 3.0%). Third Point Re accounts for its investment in the limited partnership under the variable interest model, in which Third Point Re is not the primary beneficiary, at fair value in the condensed consolidated balance sheets. The Company has elected the fair value option for this investment and records the change in the fair value in the condensed consolidated statements of income (loss).

The valuation policy with respect to this investment in a limited partnership is further described in Note 4. Third Point Re’s maximum exposure to loss as a result of its involvement with this investment is limited to the carrying value of the investment.

## 18. Earnings (loss) per share

The following sets forth the computation of basic and diluted earnings (loss) per share for the three months ended March 31, 2016 and 2015:

|                                                              | 2016                                                  | 2015        |
|--------------------------------------------------------------|-------------------------------------------------------|-------------|
|                                                              | (\$ in thousands, except share and per share amounts) |             |
| <b>Weighted-average number of common shares outstanding:</b> |                                                       |             |
| Basic number of common shares outstanding                    | 104,257,874                                           | 103,753,065 |
| Dilutive effect of options                                   | —                                                     | 1,093,353   |
| Dilutive effect of warrants                                  | —                                                     | 1,297,765   |
| Diluted number of common shares outstanding                  | 104,257,874                                           | 106,144,183 |
| <b>Basic earnings (loss) per common share:</b>               |                                                       |             |
| Net income (loss)                                            | \$ (51,129)                                           | \$ 50,470   |
| Income allocated to participating shares                     | —                                                     | (179)       |
| Net income (loss) available to common shareholders           | \$ (51,129)                                           | \$ 50,291   |
| Basic earnings (loss) per common share                       | \$ (0.49)                                             | \$ 0.48     |
| <b>Diluted earnings (loss) per common share</b>              |                                                       |             |
| Net income (loss)                                            | \$ (51,129)                                           | \$ 50,470   |
| Income allocated to participating shares                     | —                                                     | (175)       |
| Net income (loss) available to common shareholders           | \$ (51,129)                                           | \$ 50,295   |
| Diluted earnings (loss) per common share                     | \$ (0.49)                                             | \$ 0.47     |

For the three months ended March 31, 2016 and 2015, anti-dilutive options and restricted shares with service and performance condition of 4,634,445 and 4,911,202, respectively, were excluded from the computation of diluted earnings per share. Additionally, as a result of the net loss for the three months ended March 31, 2016, outstanding options and warrants totaling 10,438,425 are considered anti-dilutive and excluded from the computation of diluted loss per common share. No allocation of the net loss has been made to participating shares in the calculation of diluted net loss per common share.

## 19. Related party transaction

In addition to the transactions disclosed in Notes 4, 9 and 17 to these condensed consolidated financial statements, the following transaction is classified as a related party transaction, as the counterparty has either a direct or indirect shareholding in the Company or the Company has an investment in such counterparty.

Third Point Loan L.L.C. (“Loan LLC”) and Third Point Ventures LLC (“Ventures LLC”), (collectively the “Nominees”) serve as nominees of the Company and other affiliated investment management clients of the Investment Manager for certain investments. The Nominees have appointed the Investment Manager as its true and lawful agent and attorney. As of March 31, 2016, Loan LLC held \$61.8 million (December 31, 2015 - \$65.0 million) and Ventures LLC held \$2.1 million (December 31, 2015 - \$nil) of the Company’s investments, which are included in investments in securities and derivative contracts in the condensed consolidated balance sheets. The Company’s pro rata interest in the underlying investments registered in the name of the Nominees and the related income and expense are reflected in the condensed consolidated balance sheets and the condensed consolidated statements of income (loss).

## 20. Financial instruments with off-balance sheet risk or concentrations of credit risk

### Off-balance sheet risk

In the normal course of business, the Company trades various financial instruments and engages in various investment activities with off-balance sheet risk. These financial instruments include securities sold, not yet purchased, forwards, futures, options, swaptions, swaps and contracts for differences. Generally, these financial instruments represent future commitments to purchase or sell other financial instruments at specific terms at specified future dates. Each of these financial instruments contains varying degrees of off-balance sheet risk whereby changes in the fair values of the

securities underlying the financial instruments or fluctuations in interest rates and index values may exceed the amounts recognized in the condensed consolidated balance sheets.

Securities sold, not yet purchased are recorded as liabilities in the condensed consolidated balance sheets and have market risk to the extent that the Company, in satisfying its obligations, may be required to purchase securities at a higher value than that recorded in the condensed consolidated balance sheets. The Company's investments in securities and commodities and amounts due from brokers are partially restricted until the Company satisfies the obligation to deliver securities sold, not yet purchased.

Forward and futures contracts are a commitment to purchase or sell financial instruments, currencies or commodities at a future date at a negotiated rate. Forward and futures contracts expose the Company to market risks to the extent that adverse changes occur to the underlying financial instruments such as currency rates or equity index fluctuations.

Option contracts give the purchaser the right, but not the obligation, to purchase from or sell to the option writer financial instruments, commodities or currencies within a defined time period for a specified price. The premium received by the Company upon writing an option contract is recorded as a liability, marked to market on a daily basis and is included in securities sold, not yet purchased in the condensed consolidated balance sheets. In writing an option, the Company bears the market risk of an unfavorable change in the financial instrument underlying the written option. Exercise of an option written by the Company could result in the Company selling or buying a financial instrument at a price different from the current fair value.

In the normal course of trading activities in its investment portfolio, the Company trades and holds certain derivative contracts, such as written options, which constitute guarantees. The maximum payout for written put options is limited to the number of contracts written and the related strike prices and the maximum payout for written call options is dependent upon the market price of the underlying security at the date of a payout event. As of March 31, 2016, the investment portfolio had a maximum payout amount of approximately \$472.3 million (December 31, 2015 - \$42.2 million) relating to written put option contracts with expiration ranging from one month to ten months from the balance sheet date. The maximum payout amount could be offset by the subsequent sale, if any, of assets obtained via the settlement of a payout event. The fair value of these written put options as of March 31, 2016 was \$6.7 million (December 31, 2015 - \$2.6 million) and is included in securities sold, not yet purchased in the condensed consolidated balance sheets.

Swaption contracts give the Company the right, but not the obligation, to enter into a specified interest-rate swap within a specified period of time. The Company's market and counterparty credit risk is limited to the premium paid to enter into the swaption contract and net unrealized gains.

Total return swaps, contracts for differences, index swaps, and interest rate swaps that involve the exchange of cash flows between the Company and counterparties are based on the change in the fair value of a particular equity, index, or interest rate on a specified notional holding. The use of these contracts exposes the Company to market risks equivalent to actually holding securities of the notional value but typically involve little capital commitment relative to the exposure achieved. The gains or losses of the Company may therefore be magnified on the capital commitment.

### **Credit derivatives**

Credit default swaps protect the buyer against the loss of principal on one or more underlying bonds, loans, or mortgages in the event the issuer suffers a credit event. Typical credit events include failure to pay or restructuring of obligations, bankruptcy, dissolution or insolvency of the underlying issuer. The buyer of the protection pays an initial and/or a periodic premium to the seller and receives protection for the period of the contract. If there is not a credit event, as defined in the contract, the buyer receives no payments from the seller. If there is a credit event, the buyer receives a payment from the seller of protection as calculated by the contract between the two parties.

The Company may also enter into index and/or basket credit default swaps where the credit derivative may reference a basket of single-name credit default swaps or a broad-based index. Generally, in the event of a default on one of the underlying names, the buyer will receive a pro-rata portion of the total notional amount of the credit default index or basket contract from the seller. When the Company purchases single-name, index and basket credit default swaps, the Company is exposed to counterparty nonperformance.

Upon selling credit default swap protection, the Company may expose itself to the risk of loss from related credit events specified in the contract. Credit spreads of the underlying positions together with the period of expiration is indicative of the likelihood of a credit event under the credit default swap contract and the Company's risk of loss. Higher credit spreads and shorter expiration dates are indicative of a higher likelihood of a credit event resulting in the Company's payment to the buyer of protection. Lower credit spreads and longer expiration dates would indicate the opposite and lowers the likelihood the Company needs to pay the buyer of protection. As of March 31, 2016, there was no cash collateral received specifically related to written credit default swaps as collateral is based on the net exposure associated with all derivative instruments subject to applicable netting agreements with counterparties and may not be specific to any individual derivative contract.

The following table sets forth certain information related to the Company's written credit derivatives as of March 31, 2016 and December 31, 2015:

| March 31, 2016        | Maximum Payout/ Notional Amount (by period of expiration) |           |                                          | Fair Value of Written Credit Derivatives (2) |       |           |                        |            |
|-----------------------|-----------------------------------------------------------|-----------|------------------------------------------|----------------------------------------------|-------|-----------|------------------------|------------|
|                       | Credit Spreads on underlying (basis points)               | 0-5 years | 5 years or Greater Expiring Through 2046 | Total Written Credit Default Swaps (1)       | Asset | Liability | Net Asset/ (Liability) |            |
| (\$ in thousands)     |                                                           |           |                                          |                                              |       |           |                        |            |
| Single name (0 - 250) | \$                                                        | —         | \$ 3,171                                 | \$ 3,171                                     | \$    | —         | \$ 1,656               | \$ (1,656) |
| Single name (251-500) |                                                           | 3,882     | —                                        | 3,882                                        |       | —         | 529                    | (529)      |
|                       | \$                                                        | 3,882     | \$ 3,171                                 | \$ 7,053                                     | \$    | —         | \$ 2,185               | \$ (2,185) |

| December 31, 2015     | Maximum Payout/ Notional Amount (by period of expiration) |           |                                          | Fair Value of Written Credit Derivatives (2) |       |           |                        |            |
|-----------------------|-----------------------------------------------------------|-----------|------------------------------------------|----------------------------------------------|-------|-----------|------------------------|------------|
|                       | Credit Spreads on underlying (basis points)               | 0-5 years | 5 years or Greater Expiring Through 2046 | Total Written Credit Default Swaps (1)       | Asset | Liability | Net Asset/ (Liability) |            |
| (\$ in thousands)     |                                                           |           |                                          |                                              |       |           |                        |            |
| Single name (0 - 250) | \$                                                        | —         | \$ 2,878                                 | \$ 2,878                                     | \$    | —         | \$ 1,480               | \$ (1,480) |
| Single name (251-500) |                                                           | 3,558     | —                                        | 3,558                                        |       | —         | 574                    | (574)      |
|                       | \$                                                        | 3,558     | \$ 2,878                                 | \$ 6,436                                     | \$    | —         | \$ 2,054               | \$ (2,054) |

- (1) As of March 31, 2016 and December 31, 2015, the Company did not hold any offsetting buy protection credit derivatives with the same underlying reference obligation.
- (2) Fair value amounts of derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting.

### Concentrations of credit risk

In addition to off-balance sheet risks related to specific financial instruments, the Company may be subject to concentrations of credit risk with particular counterparties. Substantially all securities transactions of the Company are cleared by several major securities firms. The Company had substantially all such individual counterparty concentration with these brokers or their affiliates as of March 31, 2016. However, the Company reduces its credit risk with counterparties by entering into master netting agreements. Therefore, assets represent the Company's greater unrealized gains less unrealized losses for derivative contracts in which the Company has master netting agreements. Similarly, liabilities represent the Company's greater unrealized losses less unrealized gains for derivative contracts in which the Joint Ventures have master netting agreements. Furthermore, the Company obtains collateral from counterparties to reduce its exposure to counterparty credit risk.

The Company's maximum exposure to credit risk associated with counterparty nonperformance on derivative contracts is limited to the net unrealized gains by counterparties inherent in such contracts which are recognized in the condensed consolidated balance sheets. As of March 31, 2016, the Company's maximum counterparty credit risk exposure was \$31.5 million (December 31, 2015 - \$24.8 million).

## **21. Commitments and Contingencies**

### **Investments**

Loan and other participation interests purchased by the Company, such as bank debt, may include revolving credit arrangements or other financing commitments obligating the Company to advance additional amounts on demand. As of March 31, 2016, the Company had one unfunded capital commitment of \$3.5 million related to its investment in the Hellenic Fund (see Note 17 for additional information).

In the normal course of business, the Company, as part of its investment strategy, enters into contracts that contain a variety of indemnifications and warranties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote. Thus, no amounts have been accrued related to such indemnifications. The Company also indemnifies TP GP, Third Point LLC and its employees from and against any loss or expense, including, without limitation any judgment, settlement, legal fees and other costs. Any expenses related to this indemnification are reflected in net investment income (loss) in the condensed consolidated statements of income (loss).

### **Financing**

On February 13, 2015, TPRUSA issued \$115.0 million of Notes due February 13, 2025. The Notes bear interest at 7.0% and interest is payable semi-annually on February 13 and August 13 of each year. The Notes are fully and unconditionally guaranteed by Third Point Reinsurance Ltd., and, in certain circumstances specified in the indenture governing the Notes, certain existing or future subsidiaries of the Company may be required to guarantee the Notes.

### **Litigation**

From time to time in the normal course of business, the Company may be involved in formal and informal dispute resolution procedures, which may include arbitration or litigation, the outcomes of which determine the rights and obligations under the Company's reinsurance contracts and other contractual agreements. In some disputes, the Company may seek to enforce its rights under an agreement or to collect funds owing to it. In other matters, the Company may resist attempts by others to collect funds or enforce alleged rights. While the final outcome of legal disputes that may arise cannot be predicted with certainty, the Company is not currently involved in any material formal or informal dispute resolution procedures.

## **22. Segment reporting**

The determination of the Company's business segments is based on the manner in which management monitors the performance of its operations. The Company reports one operating segment, Property and Casualty Reinsurance. The Company has also identified a corporate function that includes the Company's investment income on capital, certain general and administrative expenses related to corporate activities, interest expense, foreign exchange gains and income tax expense. As of December 31, 2015, all investments in the Catastrophe Fund had been redeemed. In February 2016, the Company completed the dissolution of the Catastrophe Fund and Catastrophe Reinsurer. As a result, there is no further activity in the Catastrophe Risk Management segment.

The following is a summary of the Company's operating segment results for the three months ended March 31, 2016 and 2015:

|                                                                     | Three months ended March 31, 2016       |                                   |                    |                    |
|---------------------------------------------------------------------|-----------------------------------------|-----------------------------------|--------------------|--------------------|
|                                                                     | Property and<br>Casualty<br>Reinsurance | Catastrophe<br>Risk<br>Management | Corporate          | Total              |
| <b>Revenues</b>                                                     | (\$ in thousands)                       |                                   |                    |                    |
| Gross premiums written                                              | \$ 197,156                              | \$ —                              | \$ —               | \$ 197,156         |
| Gross premiums ceded                                                | —                                       | —                                 | —                  | —                  |
| Net premiums written                                                | 197,156                                 | —                                 | —                  | 197,156            |
| Change in net unearned premium reserves                             | (60,354)                                | —                                 | —                  | (60,354)           |
| Net premiums earned                                                 | 136,802                                 | —                                 | —                  | 136,802            |
| <b>Expenses</b>                                                     |                                         |                                   |                    |                    |
| Loss and loss adjustment expenses incurred, net                     | 84,676                                  | —                                 | —                  | 84,676             |
| Acquisition costs, net                                              | 51,687                                  | —                                 | —                  | 51,687             |
| General and administrative expenses                                 | 7,062                                   | —                                 | 4,226              | 11,288             |
| Total expenses                                                      | 143,425                                 | —                                 | 4,226              | 147,651            |
| Net underwriting loss                                               | (6,623)                                 | n/a                               | n/a                | n/a                |
| Net investment loss                                                 | (8,261)                                 | —                                 | (31,849)           | (40,110)           |
| Other expenses                                                      | (2,706)                                 | —                                 | —                  | (2,706)            |
| Interest expense                                                    | —                                       | —                                 | (2,048)            | (2,048)            |
| Foreign exchange gains                                              | —                                       | —                                 | 2,386              | 2,386              |
| Income tax benefit                                                  | —                                       | —                                 | 1,929              | 1,929              |
| Segment loss including non-controlling interests                    | (17,590)                                | —                                 | (33,808)           | (51,398)           |
| Segment loss attributable to non-controlling interests              | —                                       | —                                 | 269                | 269                |
| <b>Segment loss</b>                                                 | <b>\$ (17,590)</b>                      | <b>\$ —</b>                       | <b>\$ (33,539)</b> | <b>\$ (51,129)</b> |
| <b>Property and Casualty Reinsurance - Underwriting Ratios (1):</b> |                                         |                                   |                    |                    |
| Loss ratio                                                          | 61.9%                                   |                                   |                    |                    |
| Acquisition cost ratio                                              | 37.8%                                   |                                   |                    |                    |
| Composite ratio                                                     | 99.7%                                   |                                   |                    |                    |
| General and administrative expense ratio                            | 5.2%                                    |                                   |                    |                    |
| Combined ratio                                                      | 104.9%                                  |                                   |                    |                    |

(1) Underwriting ratios are calculated by dividing the related expense by net premiums earned.

|                                                                 | Three months ended March 31, 2015       |                                   |                  |                  |
|-----------------------------------------------------------------|-----------------------------------------|-----------------------------------|------------------|------------------|
|                                                                 | Property and<br>Casualty<br>Reinsurance | Catastrophe<br>Risk<br>Management | Corporate        | Total            |
| <b>Revenues</b>                                                 | (\$ in thousands)                       |                                   |                  |                  |
| Gross premiums written                                          | \$ 213,383                              | \$ (49)                           | \$ —             | \$ 213,334       |
| Gross premiums ceded                                            | (52)                                    | —                                 | —                | (52)             |
| Net premiums written                                            | 213,331                                 | (49)                              | —                | 213,282          |
| Change in net unearned premium reserves                         | (74,214)                                | 7                                 | —                | (74,207)         |
| Net premiums earned                                             | 139,117                                 | (42)                              | —                | 139,075          |
| <b>Expenses</b>                                                 |                                         |                                   |                  |                  |
| Loss and loss adjustment expenses incurred, net                 | 81,746                                  | —                                 | —                | 81,746           |
| Acquisition costs, net                                          | 54,663                                  | (6)                               | —                | 54,657           |
| General and administrative expenses                             | 6,567                                   | 233                               | 4,908            | 11,708           |
| Total expenses                                                  | 142,976                                 | 227                               | 4,908            | 148,111          |
| Net underwriting loss                                           | (3,859)                                 | n/a                               | n/a              | n/a              |
| Net investment income                                           | 18,575                                  | 25                                | 46,318           | 64,918           |
| Other expenses                                                  | (2,701)                                 | —                                 | —                | (2,701)          |
| Interest expense                                                | —                                       | —                                 | (1,036)          | (1,036)          |
| Foreign exchange gains                                          | —                                       | —                                 | 193              | 193              |
| Income tax expense                                              | —                                       | —                                 | (1,305)          | (1,305)          |
| Segment income (loss) including non-controlling interests       | 12,015                                  | (244)                             | 39,262           | 51,033           |
| Segment (income) loss attributable to non-controlling interests | —                                       | 80                                | (643)            | (563)            |
| <b>Segment income (loss)</b>                                    | <b>\$ 12,015</b>                        | <b>\$ (164)</b>                   | <b>\$ 38,619</b> | <b>\$ 50,470</b> |

**Property and Casualty Reinsurance - Underwriting Ratios (1):**

|                                          |        |
|------------------------------------------|--------|
| Loss ratio                               | 58.8%  |
| Acquisition cost ratio                   | 39.3%  |
| Composite ratio                          | 98.1%  |
| General and administrative expense ratio | 4.7%   |
| Combined ratio                           | 102.8% |

(1) Underwriting ratios are calculated by dividing the related expense by net premiums earned.

The following table lists the number of contracts that individually contributed more than 10% of total gross premiums written for the three months ended March 31, 2016 and 2015 as a percentage of total gross premiums written in the relevant period:

|                                                        | 2016   | 2015   |
|--------------------------------------------------------|--------|--------|
| Largest contract                                       | 48.0%  | 43.8%  |
| Second largest contract                                | 16.3%  | 14.3%  |
| Third largest contract                                 | 13.8%  | 10.2%  |
| Fourth largest contract                                | 10.7%  | n/a    |
| Total for contracts contributing greater than 10% each | 88.8%  | 68.3%  |
| Total for contracts contributing less than 10% each    | 11.2%  | 31.7%  |
|                                                        | 100.0% | 100.0% |

The following table provides a breakdown of the Company's gross premiums written by line of business for the three months ended March 31, 2016 and 2015:

|                                         | 2016              |         | 2015       |        |
|-----------------------------------------|-------------------|---------|------------|--------|
|                                         | (\$ in thousands) |         |            |        |
| Property                                | \$ (175)          | (0.1)%  | \$ 21,456  | 10.1%  |
| Casualty                                | 11,377            | 5.8 %   | 9,853      | 4.6%   |
| Specialty                               | 185,954           | 94.3 %  | 182,074    | 85.3%  |
| Total property and casualty reinsurance | 197,156           | 100.0 % | 213,383    | 100.0% |
| Catastrophe risk management             | —                 | — %     | (49)       | —%     |
|                                         | \$ 197,156        | 100.0 % | \$ 213,334 | 100.0% |

The following table provides a breakdown of the Company's gross premiums written by prospective and retroactive reinsurance contracts for the three months ended March 31, 2016 and 2015:

|                 | 2016              |        | 2015       |        |
|-----------------|-------------------|--------|------------|--------|
|                 | (\$ in thousands) |        |            |        |
| Prospective     | \$ 197,156        | 100.0% | \$ 196,824 | 92.3%  |
| Retroactive (1) | —                 | —%     | 16,510     | 7.7%   |
|                 | \$ 197,156        | 100.0% | \$ 213,334 | 100.0% |

(1) Includes all retroactive exposure in reinsurance contracts.

The Company records the gross premium written and earned at the inception of the contract for retroactive exposures in reinsurance contracts.

Substantially all of the Company's business is sourced through reinsurance brokers. The following table sets forth the Company's premiums written by source that individually contributed more than 10% of total gross premiums written for the three months ended March 31, 2016 and 2015:

|                       | 2016              |        | 2015       |        |
|-----------------------|-------------------|--------|------------|--------|
|                       | (\$ in thousands) |        |            |        |
| Largest broker        | \$ 128,171        | 65.0%  | \$ 127,237 | 59.7%  |
| Second largest broker | 31,665            | 16.1%  | 44,848     | 21.0%  |
| Third largest broker  | 21,746            | 11.0%  | n/a        | n/a    |
| Other                 | 15,574            | 7.9%   | 41,249     | 19.3%  |
|                       | \$ 197,156        | 100.0% | \$ 213,334 | 100.0% |

The following table provides a breakdown of the Company's gross premiums written by domicile of the ceding companies for the three months ended March 31, 2016 and 2015:

|                | 2016              |        | 2015       |        |
|----------------|-------------------|--------|------------|--------|
|                | (\$ in thousands) |        |            |        |
| United States  | \$ 43,291         | 22.0%  | \$ 19,693  | 9.2%   |
| Bermuda        | —                 | —%     | 29,881     | 14.0%  |
| United Kingdom | 153,865           | 78.0%  | 163,760    | 76.8%  |
|                | \$ 197,156        | 100.0% | \$ 213,334 | 100.0% |

## 23. Subsequent events

On May 4, 2016, the Company's Board of Directors authorized a new common share repurchase program for up to an aggregate of \$100.0 million of the Company's outstanding common shares. Under the common share repurchase program, the Company may repurchase shares from time to time in privately negotiated transactions or in open-market

purchases in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. The Company may commence such repurchases immediately, subject to compliance with applicable securities laws. The Company expects to finance any repurchases from a combination of cash on hand and cash provided by operating activities. The timing, amount and method of any repurchases under the program will depend on a variety of factors, including market conditions, the Company's capital position relative to internal and rating agency targets, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time.

#### **24. Supplemental guarantor information**

Third Point Reinsurance Ltd. fully and unconditionally guarantees the \$115.0 million of debt obligations issued by TPRUSA, a wholly owned subsidiary.

The following information sets forth the condensed consolidating balance sheets as of March 31, 2016 and December 31, 2015 and the condensed consolidating statements of income (loss) and cash flows for the three months ended March 31, 2016 and 2015 for Third Point Reinsurance Ltd., TPRUSA and the non-guarantor subsidiaries of Third Point Reinsurance Ltd. Investments in subsidiaries are accounted for on the equity method; accordingly, entries necessary to consolidate the parent guarantor, TPRUSA and all other subsidiaries are reflected in the eliminations column.

**CONDENSED CONSOLIDATING BALANCE SHEET**  
**As of March 31, 2016**  
(expressed in thousands of U.S. dollars)

|                                                          | <b>Third Point<br/>Reinsurance<br/>Ltd.</b> | <b>TPRUSA</b>     | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b>   | <b>Consolidated</b> |
|----------------------------------------------------------|---------------------------------------------|-------------------|--------------------------------------------|-----------------------|---------------------|
| <b>Assets</b>                                            |                                             |                   |                                            |                       |                     |
| Equity securities                                        | \$ —                                        | \$ —              | \$ 1,483,076                               | \$ —                  | \$ 1,483,076        |
| Debt securities                                          | —                                           | —                 | 1,185,102                                  | —                     | 1,185,102           |
| Other investments                                        | —                                           | —                 | 49,965                                     | —                     | 49,965              |
| Total investments in securities                          | —                                           | —                 | 2,718,143                                  | —                     | 2,718,143           |
| Cash and cash equivalents                                | 39                                          | 3                 | 7,616                                      | —                     | 7,658               |
| Restricted cash and cash equivalents                     | —                                           | —                 | 316,923                                    | —                     | 316,923             |
| Investment in subsidiaries                               | 1,334,832                                   | 262,071           | 165,002                                    | (1,761,905)           | —                   |
| Due from brokers                                         | —                                           | —                 | 424,205                                    | —                     | 424,205             |
| Derivative assets, at fair value                         | —                                           | —                 | 26,877                                     | —                     | 26,877              |
| Interest and dividends receivable                        | —                                           | —                 | 14,092                                     | —                     | 14,092              |
| Reinsurance balances receivable                          | —                                           | —                 | 326,066                                    | —                     | 326,066             |
| Deferred acquisition costs, net                          | —                                           | —                 | 216,689                                    | —                     | 216,689             |
| Unearned premiums ceded                                  | —                                           | —                 | 94                                         | —                     | 94                  |
| Loss and loss adjustment expenses recoverable            | —                                           | —                 | 1                                          | —                     | 1                   |
| Amounts due from (to) affiliates                         | (1,260)                                     | (4,255)           | 5,515                                      | —                     | —                   |
| Other assets                                             | 422                                         | 3,331             | 12,746                                     | —                     | 16,499              |
| <b>Total assets</b>                                      | <b>\$ 1,334,033</b>                         | <b>\$ 261,150</b> | <b>\$ 4,233,969</b>                        | <b>\$ (1,761,905)</b> | <b>\$ 4,067,247</b> |
| <b>Liabilities and shareholders' equity</b>              |                                             |                   |                                            |                       |                     |
| <b>Liabilities</b>                                       |                                             |                   |                                            |                       |                     |
| Accounts payable and accrued expenses                    | \$ 2,786                                    | \$ 40             | \$ 6,813                                   | \$ —                  | \$ 9,639            |
| Reinsurance balances payable                             | —                                           | —                 | 30,733                                     | —                     | 30,733              |
| Deposit liabilities                                      | —                                           | —                 | 86,594                                     | —                     | 86,594              |
| Unearned premium reserves                                | —                                           | —                 | 591,970                                    | —                     | 591,970             |
| Loss and loss adjustment expense reserves                | —                                           | —                 | 489,907                                    | —                     | 489,907             |
| Securities sold, not yet purchased, at fair value        | —                                           | —                 | 235,919                                    | —                     | 235,919             |
| Securities sold under an agreement to repurchase         | —                                           | —                 | 170,305                                    | —                     | 170,305             |
| Due to brokers                                           | —                                           | —                 | 960,703                                    | —                     | 960,703             |
| Derivative liabilities, at fair value                    | —                                           | —                 | 28,524                                     | —                     | 28,524              |
| Interest and dividends payable                           | —                                           | 1,034             | 1,363                                      | —                     | 2,397               |
| Senior notes payable, net of deferred costs              | —                                           | 113,421           | —                                          | —                     | 113,421             |
| <b>Total liabilities</b>                                 | <b>2,786</b>                                | <b>114,495</b>    | <b>2,602,831</b>                           | <b>—</b>              | <b>2,720,112</b>    |
| <b>Shareholders' equity</b>                              |                                             |                   |                                            |                       |                     |
| Common shares                                            | 10,621                                      | —                 | 1,250                                      | (1,250)               | 10,621              |
| Additional paid-in capital                               | 1,083,168                                   | 165,058           | 1,522,684                                  | (1,687,742)           | 1,083,168           |
| Retained earnings (deficit)                              | 237,458                                     | (18,403)          | 91,316                                     | (72,913)              | 237,458             |
| <b>Shareholders' equity attributable to shareholders</b> | <b>1,331,247</b>                            | <b>146,655</b>    | <b>1,615,250</b>                           | <b>(1,761,905)</b>    | <b>1,331,247</b>    |
| Non-controlling interests                                | —                                           | —                 | 15,888                                     | —                     | 15,888              |
| <b>Total shareholders' equity</b>                        | <b>1,331,247</b>                            | <b>146,655</b>    | <b>1,631,138</b>                           | <b>(1,761,905)</b>    | <b>1,347,135</b>    |
| <b>Total liabilities and shareholders' equity</b>        | <b>\$ 1,334,033</b>                         | <b>\$ 261,150</b> | <b>\$ 4,233,969</b>                        | <b>\$ (1,761,905)</b> | <b>\$ 4,067,247</b> |

**CONDENSED CONSOLIDATING BALANCE SHEET**  
**As of December 31, 2015**  
(expressed in thousands of U.S. dollars)

|                                                          | Third Point<br>Reinsurance<br>Ltd. | TPRUSA            | Non-<br>Guarantor<br>Subsidiaries | Eliminations          | Consolidated        |
|----------------------------------------------------------|------------------------------------|-------------------|-----------------------------------|-----------------------|---------------------|
| <b>Assets</b>                                            |                                    |                   |                                   |                       |                     |
| Equity securities                                        | \$ —                               | \$ —              | \$ 1,231,077                      | \$ —                  | \$ 1,231,077        |
| Debt securities                                          | —                                  | —                 | 1,034,247                         | —                     | 1,034,247           |
| Other investments                                        | —                                  | —                 | 51,920                            | —                     | 51,920              |
| Total investments in securities                          | —                                  | —                 | 2,317,244                         | —                     | 2,317,244           |
| Cash and cash equivalents                                | 308                                | 5                 | 20,094                            | —                     | 20,407              |
| Restricted cash and cash equivalents                     | —                                  | —                 | 330,915                           | —                     | 330,915             |
| Investment in subsidiaries                               | 1,382,336                          | 261,083           | 159,593                           | (1,803,012)           | —                   |
| Due from brokers                                         | —                                  | —                 | 326,971                           | —                     | 326,971             |
| Derivative assets, at fair value                         | —                                  | —                 | 35,337                            | —                     | 35,337              |
| Interest and dividends receivable                        | —                                  | —                 | 10,687                            | —                     | 10,687              |
| Reinsurance balances receivable                          | —                                  | —                 | 294,313                           | —                     | 294,313             |
| Deferred acquisition costs, net                          | —                                  | —                 | 197,093                           | —                     | 197,093             |
| Unearned premiums ceded                                  | —                                  | —                 | 187                               | —                     | 187                 |
| Loss and loss adjustment expenses recoverable            | —                                  | —                 | 125                               | —                     | 125                 |
| Amounts due from (to) affiliates                         | (346)                              | (230)             | 576                               | —                     | —                   |
| Other assets                                             | 564                                | 2,613             | 8,652                             | —                     | 11,829              |
| <b>Total assets</b>                                      | <u>\$ 1,382,862</u>                | <u>\$ 263,471</u> | <u>\$ 3,701,787</u>               | <u>\$ (1,803,012)</u> | <u>\$ 3,545,108</u> |
| <b>Liabilities and shareholders' equity</b>              |                                    |                   |                                   |                       |                     |
| <b>Liabilities</b>                                       |                                    |                   |                                   |                       |                     |
| Accounts payable and accrued expenses                    | \$ 3,136                           | \$ 40             | \$ 8,790                          | \$ —                  | \$ 11,966           |
| Reinsurance balances payable                             | —                                  | —                 | 24,119                            | —                     | 24,119              |
| Deposit liabilities                                      | —                                  | —                 | 83,955                            | —                     | 83,955              |
| Unearned premium reserves                                | —                                  | —                 | 531,710                           | —                     | 531,710             |
| Loss and loss adjustment expense reserves                | —                                  | —                 | 466,047                           | —                     | 466,047             |
| Securities sold, not yet purchased, at fair value        | —                                  | —                 | 314,353                           | —                     | 314,353             |
| Securities sold under an agreement to repurchase         | —                                  | —                 | 8,944                             | —                     | 8,944               |
| Due to brokers                                           | —                                  | —                 | 574,962                           | —                     | 574,962             |
| Derivative liabilities, at fair value                    | —                                  | —                 | 15,392                            | —                     | 15,392              |
| Interest and dividends payable                           | —                                  | 3,055             | 1,345                             | —                     | 4,400               |
| Senior notes payable, net of deferred costs              | —                                  | 113,377           | —                                 | —                     | 113,377             |
| <b>Total liabilities</b>                                 | <u>3,136</u>                       | <u>116,472</u>    | <u>2,029,617</u>                  | <u>—</u>              | <u>2,149,225</u>    |
| <b>Shareholders' equity</b>                              |                                    |                   |                                   |                       |                     |
| Common shares                                            | 10,548                             | —                 | 1,250                             | (1,250)               | 10,548              |
| Additional paid-in capital                               | 1,080,591                          | 159,618           | 1,509,594                         | (1,669,212)           | 1,080,591           |
| Retained earnings (deficit)                              | 288,587                            | (12,619)          | 145,169                           | (132,550)             | 288,587             |
| <b>Shareholders' equity attributable to shareholders</b> | <u>1,379,726</u>                   | <u>146,999</u>    | <u>1,656,013</u>                  | <u>(1,803,012)</u>    | <u>1,379,726</u>    |
| Non-controlling interests                                | —                                  | —                 | 16,157                            | —                     | 16,157              |
| <b>Total shareholders' equity</b>                        | <u>1,379,726</u>                   | <u>146,999</u>    | <u>1,672,170</u>                  | <u>(1,803,012)</u>    | <u>1,395,883</u>    |
| <b>Total liabilities and shareholders' equity</b>        | <u>\$ 1,382,862</u>                | <u>\$ 263,471</u> | <u>\$ 3,701,787</u>               | <u>\$ (1,803,012)</u> | <u>\$ 3,545,108</u> |

**CONDENSED CONSOLIDATING STATEMENT OF INCOME (LOSS)**  
**Three months ended March 31, 2016**  
(expressed in thousands of U.S. dollars)

|                                                 | Third Point<br>Reinsurance<br>Ltd. | TPRUSA            | Non-<br>Guarantor<br>Subsidiaries | Eliminations     | Consolidated       |
|-------------------------------------------------|------------------------------------|-------------------|-----------------------------------|------------------|--------------------|
| <b>Revenues</b>                                 |                                    |                   |                                   |                  |                    |
| Gross premiums written                          | \$ —                               | \$ —              | \$ 197,156                        | \$ —             | \$ 197,156         |
| Gross premiums ceded                            | —                                  | —                 | —                                 | —                | —                  |
| Net premiums written                            | —                                  | —                 | 197,156                           | —                | 197,156            |
| Change in net unearned premium reserves         | —                                  | —                 | (60,354)                          | —                | (60,354)           |
| Net premiums earned                             | —                                  | —                 | 136,802                           | —                | 136,802            |
| Net investment income (loss)                    | —                                  | —                 | (40,110)                          | —                | (40,110)           |
| Equity in losses of subsidiaries                | (50,154)                           | (4,452)           | (31)                              | 54,637           | —                  |
| Total revenues                                  | (50,154)                           | (4,452)           | 96,661                            | 54,637           | 96,692             |
| <b>Expenses</b>                                 |                                    |                   |                                   |                  |                    |
| Loss and loss adjustment expenses incurred, net | —                                  | —                 | 84,676                            | —                | 84,676             |
| Acquisition costs, net                          | —                                  | —                 | 51,687                            | —                | 51,687             |
| General and administrative expenses             | 975                                | 2                 | 10,311                            | —                | 11,288             |
| Other expenses                                  | —                                  | —                 | 2,706                             | —                | 2,706              |
| Interest expense                                | —                                  | 2,048             | —                                 | —                | 2,048              |
| Foreign exchange gains                          | —                                  | —                 | (2,386)                           | —                | (2,386)            |
| Total expenses                                  | 975                                | 2,050             | 146,994                           | —                | 150,019            |
| Loss before income tax benefit                  | (51,129)                           | (6,502)           | (50,333)                          | 54,637           | (53,327)           |
| Income tax benefit                              | —                                  | 718               | 1,211                             | —                | 1,929              |
| <b>Loss including non-controlling interests</b> | (51,129)                           | (5,784)           | (49,122)                          | 54,637           | (51,398)           |
| Loss attributable to non-controlling interests  | —                                  | —                 | 269                               | —                | 269                |
| <b>Net loss</b>                                 | <u>\$ (51,129)</u>                 | <u>\$ (5,784)</u> | <u>\$ (48,853)</u>                | <u>\$ 54,637</u> | <u>\$ (51,129)</u> |

**CONDENSED CONSOLIDATING STATEMENT OF INCOME (LOSS)**  
**Three months ended March 31, 2015**  
(expressed in thousands of U.S. dollars)

|                                                   | Third Point<br>Reinsurance<br>Ltd. | TPRUSA        | Non-<br>Guarantor<br>Subsidiaries | Eliminations       | Consolidated     |
|---------------------------------------------------|------------------------------------|---------------|-----------------------------------|--------------------|------------------|
| <b>Revenues</b>                                   |                                    |               |                                   |                    |                  |
| Gross premiums written                            | \$ —                               | \$ —          | \$ 213,334                        | \$ —               | \$ 213,334       |
| Gross premiums ceded                              | —                                  | —             | (52)                              | —                  | (52)             |
| Net premiums written                              | —                                  | —             | 213,282                           | —                  | 213,282          |
| Change in net unearned premium reserves           | —                                  | —             | (74,207)                          | —                  | (74,207)         |
| Net premiums earned                               | —                                  | —             | 139,075                           | —                  | 139,075          |
| Net investment income                             | —                                  | —             | 64,918                            | —                  | 64,918           |
| Equity in earnings of subsidiaries                | 51,722                             | 2,443         | (25)                              | (54,140)           | —                |
| Total revenues                                    | 51,722                             | 2,443         | 203,968                           | (54,140)           | 203,993          |
| <b>Expenses</b>                                   |                                    |               |                                   |                    |                  |
| Loss and loss adjustment expenses incurred, net   | —                                  | —             | 81,746                            | —                  | 81,746           |
| Acquisition costs, net                            | —                                  | —             | 54,657                            | —                  | 54,657           |
| General and administrative expenses               | 1,252                              | 85            | 10,371                            | —                  | 11,708           |
| Other expenses                                    | —                                  | —             | 2,701                             | —                  | 2,701            |
| Interest expense                                  | —                                  | 1,036         | —                                 | —                  | 1,036            |
| Foreign exchange gains                            | —                                  | —             | (193)                             | —                  | (193)            |
| Total expenses                                    | 1,252                              | 1,121         | 149,282                           | —                  | 151,655          |
| Income before income tax expense                  | 50,470                             | 1,322         | 54,686                            | (54,140)           | 52,338           |
| Income tax expense                                | —                                  | (475)         | (830)                             | —                  | (1,305)          |
| <b>Income including non-controlling interests</b> | 50,470                             | 847           | 53,856                            | (54,140)           | 51,033           |
| Income attributable to non-controlling interests  | —                                  | —             | (563)                             | —                  | (563)            |
| <b>Net income</b>                                 | <u>\$ 50,470</u>                   | <u>\$ 847</u> | <u>\$ 53,293</u>                  | <u>\$ (54,140)</u> | <u>\$ 50,470</u> |

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**Three months ended March 31, 2016**  
(expressed in thousands of U.S. dollars)

|                                                                                                                                   | Third Point<br>Reinsurance<br>Ltd. | TPRUSA      | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated    |
|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------|-----------------------------------|--------------|-----------------|
| <b>Operating activities</b>                                                                                                       |                                    |             |                                   |              |                 |
| Loss including non-controlling interests                                                                                          | \$ (51,129)                        | \$ (5,784)  | \$ (49,122)                       | \$ 54,637    | \$ (51,398)     |
| Adjustments to reconcile income (loss) including non-controlling interests to net cash provided by (used in) operating activities |                                    |             |                                   |              |                 |
| Equity in losses of subsidiaries                                                                                                  | 50,154                             | 4,452       | 31                                | (54,637)     | —               |
| Share compensation expense                                                                                                        | —                                  | —           | 2,651                             | —            | 2,651           |
| Interest expense on deposit liabilities                                                                                           | —                                  | —           | 471                               | —            | 471             |
| Net unrealized loss on investments and derivatives                                                                                | —                                  | —           | 55,627                            | —            | 55,627          |
| Net realized gain on investments and derivatives                                                                                  | —                                  | —           | (24,510)                          | —            | (24,510)        |
| Foreign exchange gains included in net income                                                                                     | —                                  | —           | (2,386)                           | —            | (2,386)         |
| Amortization of premium and accretion of discount, net                                                                            | —                                  | 44          | 2,498                             | —            | 2,542           |
| <b>Changes in assets and liabilities:</b>                                                                                         |                                    |             |                                   |              |                 |
| Reinsurance balances receivable                                                                                                   | —                                  | —           | (31,603)                          | —            | (31,603)        |
| Deferred acquisition costs, net                                                                                                   | —                                  | —           | (19,596)                          | —            | (19,596)        |
| Unearned premiums ceded                                                                                                           | —                                  | —           | 93                                | —            | 93              |
| Loss and loss adjustment expenses recoverable                                                                                     | —                                  | —           | 124                               | —            | 124             |
| Other assets                                                                                                                      | 142                                | (718)       | (4,094)                           | —            | (4,670)         |
| Interest and dividends receivable, net                                                                                            | —                                  | (2,021)     | (3,387)                           | —            | (5,408)         |
| Unearned premium reserves                                                                                                         | —                                  | —           | 60,260                            | —            | 60,260          |
| Loss and loss adjustment expense reserves                                                                                         | —                                  | —           | 26,136                            | —            | 26,136          |
| Accounts payable and accrued expenses                                                                                             | (350)                              | —           | (2,047)                           | —            | (2,397)         |
| Reinsurance balances payable                                                                                                      | —                                  | —           | 6,892                             | —            | 6,892           |
| Amounts due from (to) affiliates                                                                                                  | 914                                | 4,025       | (4,939)                           | —            | —               |
| Net cash (used in) provided by operating activities                                                                               | (269)                              | (2)         | 13,099                            | —            | 12,828          |
| <b>Investing activities</b>                                                                                                       |                                    |             |                                   |              |                 |
| Purchases of investments                                                                                                          | —                                  | —           | (1,189,432)                       | —            | (1,189,432)     |
| Proceeds from sales of investments                                                                                                | —                                  | —           | 771,687                           | —            | 771,687         |
| Purchases of investments to cover short sales                                                                                     | —                                  | —           | (459,901)                         | —            | (459,901)       |
| Proceeds from short sales of investments                                                                                          | —                                  | —           | 386,054                           | —            | 386,054         |
| Change in due to/from brokers, net                                                                                                | —                                  | —           | 288,507                           | —            | 288,507         |
| Increase in securities sold under an agreement to repurchase                                                                      | —                                  | —           | 161,361                           | —            | 161,361         |
| Change in restricted cash and cash equivalents                                                                                    | —                                  | —           | 13,992                            | —            | 13,992          |
| Contributed capital to subsidiaries                                                                                               | (5,000)                            | (5,000)     | —                                 | 10,000       | —               |
| Contributed capital from parent and/or subsidiaries                                                                               | —                                  | 5,000       | 5,000                             | (10,000)     | —               |
| Net cash (used in) provided by investing activities                                                                               | (5,000)                            | —           | (22,732)                          | —            | (27,732)        |
| <b>Financing activities</b>                                                                                                       |                                    |             |                                   |              |                 |
| Increase in deposit liabilities                                                                                                   | —                                  | —           | 2,155                             | —            | 2,155           |
| Dividend received by (paid to) parent                                                                                             | 5,000                              | —           | (5,000)                           | —            | —               |
| Net cash provided by (used in) financing activities                                                                               | 5,000                              | —           | (2,845)                           | —            | 2,155           |
| Net increase (decrease) in cash and cash equivalents                                                                              | (269)                              | (2)         | (12,478)                          | —            | (12,749)        |
| Cash and cash equivalents at beginning of period                                                                                  | 308                                | 5           | 20,094                            | —            | 20,407          |
| <b>Cash and cash equivalents at end of period</b>                                                                                 | <u>\$ 39</u>                       | <u>\$ 3</u> | <u>\$ 7,616</u>                   | <u>\$ —</u>  | <u>\$ 7,658</u> |

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**Three months ended March 31, 2015**  
(expressed in thousands of U.S. dollars)

|                                                                                                                            | <b>Third Point<br/>Reinsurance<br/>Ltd.</b> | <b>TPRUSA</b>   | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-----------------|--------------------------------------------|---------------------|---------------------|
| <b>Operating activities</b>                                                                                                |                                             |                 |                                            |                     |                     |
| Income including non-controlling interests                                                                                 | \$ 50,470                                   | \$ 847          | \$ 53,856                                  | \$ (54,140)         | \$ 51,033           |
| Adjustments to reconcile income including non-controlling interests to net cash provided by (used in) operating activities |                                             |                 |                                            |                     |                     |
| Equity in earnings of subsidiaries                                                                                         | (51,722)                                    | (2,443)         | 25                                         | 54,140              | —                   |
| Share compensation expense                                                                                                 | —                                           | —               | 3,083                                      | —                   | 3,083               |
| Interest expense on deposit liabilities                                                                                    | —                                           | —               | 631                                        | —                   | 631                 |
| Net unrealized loss on investments and derivatives                                                                         | —                                           | —               | (36,340)                                   | —                   | (36,340)            |
| Net realized gain on investments and derivatives                                                                           | —                                           | —               | (53,283)                                   | —                   | (53,283)            |
| Foreign exchange gains included in net income                                                                              | —                                           | —               | (193)                                      | —                   | (193)               |
| Amortization of premium and accretion of discount, net                                                                     | —                                           | 21              | 1,652                                      | —                   | 1,673               |
| <b>Changes in assets and liabilities:</b>                                                                                  |                                             |                 |                                            |                     |                     |
| Reinsurance balances receivable                                                                                            | —                                           | —               | 53,170                                     | —                   | 53,170              |
| Deferred acquisition costs, net                                                                                            | —                                           | —               | (8,195)                                    | —                   | (8,195)             |
| Loss and loss adjustment expenses recoverable                                                                              | —                                           | —               | 406                                        | —                   | 406                 |
| Other assets                                                                                                               | 242                                         | 666             | (4,253)                                    | —                   | (3,345)             |
| Interest and dividends receivable, net                                                                                     | —                                           | 1,015           | (3,395)                                    | —                   | (2,380)             |
| Unearned premium reserves                                                                                                  | —                                           | —               | 74,205                                     | —                   | 74,205              |
| Loss and loss adjustment expense reserves                                                                                  | —                                           | —               | (2,907)                                    | —                   | (2,907)             |
| Accounts payable and accrued expenses                                                                                      | 122                                         | 7               | (2,153)                                    | —                   | (2,024)             |
| Reinsurance balances payable                                                                                               | —                                           | —               | 26,638                                     | —                   | 26,638              |
| Performance fees payable to related party                                                                                  | —                                           | —               | 15,844                                     | —                   | 15,844              |
| Amounts due from (to) affiliates                                                                                           | 486                                         | (1,048)         | 562                                        | —                   | —                   |
| Net cash provided by (used in) operating activities                                                                        | (402)                                       | (935)           | 119,353                                    | —                   | 118,016             |
| <b>Investing activities</b>                                                                                                |                                             |                 |                                            |                     |                     |
| Purchases of investments                                                                                                   | —                                           | —               | (875,871)                                  | —                   | (875,871)           |
| Proceeds from sales of investments                                                                                         | —                                           | —               | 747,492                                    | —                   | 747,492             |
| Purchases of investments to cover short sales                                                                              | —                                           | —               | (116,867)                                  | —                   | (116,867)           |
| Proceeds from short sales of investments                                                                                   | —                                           | —               | 150,942                                    | —                   | 150,942             |
| Change in due to/from brokers, net                                                                                         | —                                           | —               | (17,603)                                   | —                   | (17,603)            |
| Decrease in securities purchased under an agreement to sell                                                                | —                                           | —               | 12,222                                     | —                   | 12,222              |
| Increase in securities sold under an agreement to repurchase                                                               | —                                           | —               | 61,939                                     | —                   | 61,939              |
| Change in restricted cash and cash equivalents                                                                             | —                                           | —               | (166,167)                                  | —                   | (166,167)           |
| Contributed capital (to) from subsidiaries                                                                                 | (158,000)                                   | (266,975)       | (25)                                       | 425,000             | —                   |
| Contributed capital from parent                                                                                            | —                                           | 158,000         | 267,000                                    | (425,000)           | —                   |
| Net cash provided by (used in) investing activities                                                                        | (158,000)                                   | (108,975)       | 63,062                                     | —                   | (203,913)           |
| <b>Financing activities</b>                                                                                                |                                             |                 |                                            |                     |                     |
| Proceeds from issuance of common shares, net of costs                                                                      | 1,115                                       | —               | —                                          | —                   | 1,115               |
| Proceeds from issuance of senior notes payable                                                                             | —                                           | 114,025         | —                                          | —                   | 114,025             |
| Increase in deposit liabilities                                                                                            | —                                           | —               | 478                                        | —                   | 478                 |
| Non-controlling interest in investment affiliate, net                                                                      | —                                           | —               | (24,999)                                   | —                   | (24,999)            |
| Non-controlling interest in Catastrophe Fund                                                                               | —                                           | —               | (21,400)                                   | —                   | (21,400)            |
| Non-controlling interest in Catastrophe Manager                                                                            | —                                           | —               | 292                                        | —                   | 292                 |
| Dividend received by (paid to) parent                                                                                      | 158,000                                     | —               | (158,000)                                  | —                   | —                   |
| Net cash provided by (used in) financing activities                                                                        | 159,115                                     | 114,025         | (203,629)                                  | —                   | 69,511              |
| Net increase (decrease) in cash and cash equivalents                                                                       | 713                                         | 4,115           | (21,214)                                   | —                   | (16,386)            |
| Cash and cash equivalents at beginning of period                                                                           | 140                                         | —               | 28,594                                     | —                   | 28,734              |
| <b>Cash and cash equivalents at end of period</b>                                                                          | <b>\$ 853</b>                               | <b>\$ 4,115</b> | <b>\$ 7,380</b>                            | <b>\$ —</b>         | <b>\$ 12,348</b>    |

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

*The following discussion and analysis is intended to help the reader understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion in conjunction with our unaudited condensed consolidated interim financial statements and the related notes contained elsewhere in this Quarterly Report on Form 10-Q.*

*The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Risk Factors" and "Special Note Regarding Forward-Looking Statements". Our actual results may differ materially from those contained in or implied by any forward looking statements.*

### **Special Note Regarding Forward-Looking Statements**

Certain statements in this Quarterly Report on Form 10-Q may constitute "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements regarding our industry, business strategy, plans, goals and expectations concerning our market position, international expansion, future operations, margins, profitability, future efficiencies, capital expenditures, liquidity and capital resources and other financial and operating information. When used in this discussion, the words "may," "believes," "intends," "seeks," "anticipates," "plans," "estimates," "expects," "should," "assumes," "continues," "could," "will," "future" and the negative of these or similar terms and phrases are intended to identify forward-looking statements in this Quarterly Report on Form 10-Q.

Forward-looking statements reflect our current expectations regarding future events, results or outcomes. These expectations may or may not be realized. Although we believe the expectations reflected in the forward-looking statements are reasonable, we can give you no assurance these expectations will prove to have been correct. Some of these expectations may be based upon assumptions, data or judgments that prove to be incorrect. Actual events, results and outcomes may differ materially from our expectations due to a variety of known and unknown risks, uncertainties and other factors. Although it is not possible to identify all of these risks and factors, they include, among others, the following:

- limited historical information about us;
- fluctuation in results of operations;
- more established competitors;
- losses exceeding reserves;
- downgrades or withdrawal of ratings by rating agencies;
- dependence on key executives;
- dependence on letter of credit facilities that may not be available on commercially acceptable terms;
- potential inability to pay dividends;
- inability to service our indebtedness;
- limited cash flow and liquidity due to our indebtedness;
- unavailability of capital in the future;
- fluctuations in market price of our common shares;
- dependence on clients' evaluations of risks associated with such clients' insurance underwriting;
- suspension or revocation of our reinsurance licenses;
- potentially being deemed an investment company under U.S. federal securities law;

- potential characterization of Third Point Reinsurance Ltd. and/or Third Point Reinsurance Company Ltd. as a passive foreign investment company;
- future strategic transactions such as acquisitions, dispositions, merger or joint ventures;
- dependence on Third Point LLC to implement our investment strategy;
- termination by Third Point LLC of our investment management agreements;
- risks associated with our investment strategy being greater than those faced by competitors;
- increased regulation or scrutiny of alternative investment advisers affecting our reputation;
- Third Point Reinsurance Ltd. potentially becoming subject to U.S. federal income taxation;
- potentially becoming subject to U.S. withholding and information reporting requirements under the Foreign Account Tax Compliance Act;
- changes in Bermuda or other law and regulation that may have an adverse impact on our operations; and
- other risks and factors listed under “Risk Factors” in our most recent Annual Report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission.

Any one of these factors or a combination of these factors could materially affect our financial condition or future results of operations and could influence whether any forward-looking statements contained in this report ultimately prove to be accurate. Our forward-looking statements are not guarantees of future performance, and you should not place undue reliance on them. All forward-looking statements speak only as of the date made and we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition, while we do, from time to time, communicate with security analysts, it is against our policy to disclose to them any material non-public information or other confidential information. Accordingly, shareholders should not assume that we agree with any statement or report issued by any analyst irrespective of the content of the statement or report. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts, or opinions, such reports are not our responsibility.

Unless the context otherwise indicates or requires, the terms “we,” “our,” “us,” and the “Company,” as used in this report, refer to Third Point Reinsurance Ltd. and its directly and indirectly owned subsidiaries, including Third Point Reinsurance Company Ltd. (“Third Point Re”) and Third Point Reinsurance (USA) Ltd. (“Third Point Re USA”), as a combined entity, except where otherwise stated or where it is clear that the terms mean only Third Point Reinsurance Ltd. exclusive of its subsidiaries. Third Point Reinsurance Investment Management Ltd. is referred to as the “Catastrophe Fund Manager,” Third Point Reinsurance Opportunities Fund Ltd. as the “Catastrophe Fund” and Third Point Re Cat Ltd. as the “Catastrophe Reinsurer.”

## Overview

We are a holding company domiciled in Bermuda. Through our reinsurance subsidiaries, we provide specialty property and casualty reinsurance products to insurance and reinsurance companies on a worldwide basis. Our goal is to deliver attractive equity returns to our shareholders by combining profitable reinsurance underwriting with superior investment management provided by Third Point LLC, our investment manager. We believe that our reinsurance and investment strategy differentiates us from our competitors.

We manage our business on the basis of one operating segment, Property and Casualty Reinsurance. We also have a corporate function that includes our investment income on capital, certain general and administrative expenses related to corporate activities, interest expense and income tax expense. As of December 31, 2015, all investments in the Catastrophe Fund had been redeemed. In February 2016, the Company completed the dissolution of the Catastrophe Fund and Catastrophe Reinsurer. As a result, there is no further activity in the Catastrophe Risk Management segment.

## **Property and Casualty Reinsurance**

We provide reinsurance products to insurance and reinsurance companies, government entities, and other risk bearing vehicles. Contracts can be written on an excess of loss basis or quota share basis, although the majority of contracts written to date have been on a quota share basis. In addition, we write contracts on both a prospective basis and a retroactive basis. Prospective reinsurance contracts cover losses incurred as a result of future insurable events. Retroactive reinsurance contracts cover the potential for changes in estimates of loss and loss adjustment expense reserves related to loss events that have occurred in the past. Retroactive reinsurance contracts can be an attractive type of contract for us as they can generate an underwriting profit should the ultimate loss and loss adjustment expenses settle for less than the initial estimate of reserves and the premiums received at the inception of the contract generate insurance float. The product lines that we currently underwrite for this operating segment are: property, casualty and specialty. We assume a minimal amount of catastrophe risk within the property and casualty segment. We anticipate that our property catastrophe exposures will consistently remain extremely low when compared to many other reinsurers with whom we compete.

In February 2015, we began reinsurance operations in the United States through Third Point Re USA, a Bermuda company licensed as a Class 4 insurer and a wholly owned operating subsidiary of Third Point Re (USA) Holdings Inc. (“TPRUSA”). The results of Third Point Re USA are reflected in the results of the Property and Casualty Reinsurance segment. Third Point Re USA and TPRUSA have a limited operating history and are exposed to volatility in their results of operations. As a result, period to period comparisons of our results of operations may not be meaningful. Third Point Re USA’s U.S. presence is a strategic component of our overall growth strategy. As a result of Third Point Re USA’s U.S. presence, we have expanded our marketing activities and have begun to broaden our profile in the U.S. marketplace. In addition to developing new opportunities, we are strengthening our relationships with existing cedents and brokers. We also intend to continue developing a firsthand understanding of cedent underwriting and claims capabilities that will benefit our underwriting decisions.

Insurance float is an important aspect of our property and casualty reinsurance operation. In an insurance or reinsurance operation, float arises because premiums from reinsurance contracts and consideration received for deposit accounted contracts are collected before losses are paid on reinsurance contracts and proceeds are returned on deposit accounting contracts. In some instances, the interval between cash receipts and payments can extend over many years. During this time interval, we invest the cash received and seek to generate investment returns. Float is not a concept defined by U.S. GAAP and therefore, there are no comparable U.S. GAAP measures. Float, as a result, is considered to be a non-GAAP measure.

We believe that our property and casualty reinsurance segment will contribute to our results by both generating underwriting income as well as generating float. In addition, we expect that float will grow over time as our reinsurance operations expand.

## **Investment Management**

Our investment strategy is implemented by our investment manager, Third Point LLC, under two long-term investment management contracts. We directly own the investments that are held in two separate accounts and managed by Third Point LLC on substantially the same basis as Third Point LLC’s main hedge funds.

## **Limited Operating History and Comparability of Results**

We were incorporated on October 6, 2011 and completed our initial capitalization on December 22, 2011. We began underwriting business on January 1, 2012. We completed an initial public offering of common shares on August 20, 2013 (the “IPO”). As a result, we have a limited operating history and are exposed to volatility in our results of operations. Period to period comparisons of our results of operations may not be meaningful.

In addition, the amount of premiums written may vary from year to year and from period to period as a result of several factors, including changes in market conditions and our view of the long-term profit potential of individual lines of business.

## Non-GAAP Financial Measures

We have included financial measures that are not calculated under standards or rules that comprise GAAP. Such measures, including net investment income on float, book value per share, diluted book value per share and return on beginning shareholders' equity, are referred to as non-GAAP financial measures. These non-GAAP financial measures may be defined or calculated differently by other companies. We believe these measures allow for a more complete understanding of the underlying business. These measures are used to monitor our results and should not be viewed as a substitute for those determined in accordance with GAAP. Reconciliations of such measures to the most comparable GAAP figures are referenced below.

## Key Performance Indicators

We believe that by combining a disciplined and opportunistic approach to reinsurance underwriting with investment results from the active management of our investment portfolio, we will be able to generate attractive returns for our shareholders. The key financial measures that we believe are most meaningful in analyzing our performance are: net underwriting income (loss) for our property and casualty reinsurance segment, combined ratio for our property and casualty reinsurance segment, net investment income (loss), net investment return on investments managed by Third Point LLC, book value per share, diluted book value per share, growth in diluted book value per share and return on beginning shareholders' equity.

The table below shows the key performance indicators for our consolidated business for the three months ended March 31, 2016 and 2015:

|                                                                         | 2016                                                 | 2015       |
|-------------------------------------------------------------------------|------------------------------------------------------|------------|
|                                                                         | (In thousands, except for per share data and ratios) |            |
| Key underwriting metrics for Property and Casualty Reinsurance segment: |                                                      |            |
| Net underwriting loss (1)                                               | \$ (6,623)                                           | \$ (3,859) |
| Combined ratio (1)                                                      | 104.9 %                                              | 102.8%     |
| Key investment return metrics:                                          |                                                      |            |
| Net investment income (loss)                                            | \$ (40,110)                                          | \$ 64,918  |
| Net investment return on investments managed by Third Point LLC         | (2.0)%                                               | 3.0%       |
| Key shareholders' value creation metrics:                               |                                                      |            |
| Book value per share (2) (3)                                            | \$ 12.76                                             | \$ 13.23   |
| Diluted book value per share (2) (3)                                    | \$ 12.37                                             | \$ 12.85   |
| Increase (decrease) in diluted book value per share (2)                 | (3.7)%                                               | 3.1%       |
| Return on beginning shareholders' equity (2)                            | (3.7)%                                               | 3.5%       |

(1) See Note 22 to the accompanying condensed consolidated financial statements for a calculation of net underwriting loss and combined ratio.

(2) Book value per share, diluted book value per share and return on beginning shareholders' equity are non-GAAP financial measures. See reconciliations below.

(3) Prior year comparative represents amounts as of December 31, 2015.

## Net Underwriting Income (Loss) for Property and Casualty Reinsurance Segment

One way that we evaluate the performance of our property and casualty reinsurance results is by measuring net underwriting income (loss). We do not measure performance based on the amount of gross premiums written. Net underwriting income or loss is calculated from net premiums earned, less net loss and loss adjustment expenses, acquisition costs and general and administrative expenses related to the underwriting activities.

## Combined Ratio for Property and Casualty Reinsurance Segment

Combined ratio is calculated by dividing the sum of loss and loss adjustment expenses incurred, net, acquisition costs, net and general and administrative expenses related to underwriting activities by net premiums earned. The combined ratio compares the amount of net premiums earned to the amount incurred in claims and underwriting related expenses. This ratio is a key indicator of a reinsurance company's profitability. A combined ratio greater than 100% means that

loss and loss adjustment expenses, acquisition costs and general and administrative expenses related to underwriting activities exceeded net premiums earned. See additional information in Note 22 to our condensed consolidated financial statements.

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

Net investment income (loss) is an important measure that affects overall profitability. Net investment income (loss) is affected by the performance of Third Point LLC as our exclusive investment manager and the amount of investable cash, or float, generated by our reinsurance operations. Pursuant to our investment management agreements, Third Point LLC is required to manage our investment portfolio on substantially the same basis as its main hedge funds, subject to certain conditions set forth in our investment guidelines. These conditions include limitations on investing in private securities, a limitation on portfolio leverage, and a limitation on portfolio concentration in individual securities. Our investment management agreements allow us to withdraw cash from our investment account with Third Point LLC at any time with three days' notice to pay claims and with five days' notice to pay expenses.

We track excess cash flows generated by our property and casualty reinsurance operations, or float, in separate accounts that allow us to also track the net investment income (loss) generated on the float. We believe that net investment income (loss) generated on float is an important consideration in evaluating the overall contribution of our property and casualty reinsurance operations to our consolidated results. It is also explicitly considered as part of the evaluation of management's performance for purposes of long-term incentive compensation. Net investment income (loss) on float as presented is a non-GAAP financial measure. See the table below for a reconciliation of net investment income (loss) on float to net investment income (loss).

Net investment income (loss) for the three months ended March 31, 2016 and 2015 was comprised of the following:

|                                                                                  | 2016               | 2015             |
|----------------------------------------------------------------------------------|--------------------|------------------|
|                                                                                  | (\$ in thousands)  |                  |
| Net investment income (loss) on float                                            | \$ (8,261)         | \$ 18,575        |
| Net investment income (loss) on capital                                          | (32,096)           | 46,274           |
| Net investment income (loss) on investments managed by Third Point LLC           | (40,357)           | 64,849           |
| Investment income on cash held by the Catastrophe Reinsurer and Catastrophe Fund | —                  | 15               |
| Net gain on catastrophe bond held by Catastrophe Reinsurer                       | —                  | 10               |
| Net gain on investment in Kiskadee Fund                                          | 247                | 44               |
| Net investment income (loss)                                                     | <u>\$ (40,110)</u> | <u>\$ 64,918</u> |

### ***Net Investment Return on Investments Managed by Third Point LLC***

Net investment return represents the return on our investments managed by Third Point LLC, net of fees. The net investment return on investments managed by Third Point LLC is the percentage change in value of a dollar invested over the reporting period on our investment assets managed by Third Point LLC, net of non-controlling interests. The stated return is net of withholding taxes, which are presented as a component of income tax expense (benefit) in our condensed consolidated statements of income (loss). Net investment return is the key indicator by which we measure the performance of Third Point LLC, our investment manager.

### ***Book Value Per Share and Diluted Book Value Per Share***

Book value per share and diluted book value per share are non-GAAP financial measures. Book value per share is calculated by dividing shareholders' equity attributable to shareholders by the number of issued and outstanding shares at period end. Diluted book value per share is calculated by dividing shareholders' equity attributable to shareholders and adjusted to include unvested restricted shares and the exercise of all in-the-money options and warrants. For unvested restricted shares with a performance condition, we include the unvested restricted shares for which we consider vesting to be probable. We believe that long-term growth in diluted book value per share is the most important measure of our financial performance because it allows management and investors to track over time the value created by the retention of earnings. In addition, we believe this metric is used by investors because it provides a basis for comparison with other companies in our industry that also report a similar measure.

For the three months ended March 31, 2016, book value per share decreased by \$0.47 per share, or 3.6%, to \$12.76 per share from \$13.23 per share as of December 31, 2015.

For the three months ended March 31, 2016, diluted book value per share decreased by \$0.48 per share, or 3.7%, to \$12.37 per share from \$12.85 per share as of December 31, 2015.

The decrease in basic and diluted book value per share for the three months ended March 31, 2016 was primarily due to the net loss generated in the period.

The following table sets forth the computation of basic and diluted book value per share as of March 31, 2016 and December 31, 2015:

|                                                                            | March 31,<br>2016                                  | December 31,<br>2015 |
|----------------------------------------------------------------------------|----------------------------------------------------|----------------------|
|                                                                            | (In thousands, except share and per share amounts) |                      |
| Basic and diluted book value per share numerator:                          |                                                    |                      |
| Total shareholders' equity                                                 | \$ 1,347,135                                       | \$ 1,395,883         |
| Less: non-controlling interests                                            | (15,888)                                           | (16,157)             |
| Shareholders' equity attributable to shareholders                          | 1,331,247                                          | 1,379,726            |
| Effect of dilutive warrants issued to Founders and an advisor              | 46,512                                             | 46,512               |
| Effect of dilutive share options issued to directors and employees         | 57,272                                             | 58,070               |
| Diluted book value per share numerator:                                    | \$ 1,435,031                                       | \$ 1,484,308         |
| Basic and diluted book value per share denominator:                        |                                                    |                      |
| Issued and outstanding shares                                              | 104,336,577                                        | 104,256,745          |
| Effect of dilutive warrants issued to Founders and an advisor              | 4,651,163                                          | 4,651,163            |
| Effect of dilutive share options issued to directors and employees         | 5,708,559                                          | 5,788,391            |
| Effect of dilutive restricted shares issued to directors and employees (1) | 1,273,248                                          | 837,277              |
| Diluted book value per share denominator:                                  | 115,969,547                                        | 115,533,576          |
|                                                                            |                                                    |                      |
| Basic book value per share                                                 | \$ 12.76                                           | \$ 13.23             |
| Diluted book value per share                                               | \$ 12.37                                           | \$ 12.85             |

- (1) As of March 31, 2016, the effect of dilutive restricted shares issued to directors and employees was comprised of 301,043 of restricted shares with a service condition only and 972,205 of restricted shares with a service and performance condition that were considered probable of vesting.

### ***Return on Beginning Shareholders' Equity***

Return on beginning shareholders' equity as presented is a non-GAAP financial measure. Return on beginning shareholders' equity is calculated by dividing net income (loss) by the beginning shareholders' equity attributable to shareholders. We believe this metric is used by investors to supplement measures of our profitability.

Return on beginning shareholders' equity for the three months ended March 31, 2016 and 2015 was calculated as follows:

|                                                                         | 2016              | 2015         |
|-------------------------------------------------------------------------|-------------------|--------------|
|                                                                         | (\$ in thousands) |              |
| Net income (loss)                                                       | \$ (51,129)       | \$ 50,470    |
| Shareholders' equity attributable to shareholders - beginning of period | \$ 1,379,726      | \$ 1,451,913 |
| Return on beginning shareholders' equity                                | (3.7)%            | 3.5%         |

### **Revenues**

We derive our revenues from two principal sources:

- premiums from property and casualty reinsurance business assumed; and

- income from investments.

Premiums from our property and casualty reinsurance business assumed are directly related to the number, type and pricing of contracts we write. Premiums are earned over the contract period based on the exposure period of the underlying contracts of the ceding company.

Income from our investments is primarily comprised of interest income, dividends, and net realized and unrealized gains on investment securities included in our investment portfolio.

## **Expenses**

Our expenses consist primarily of the following:

- loss and loss adjustment expenses;
- acquisition costs;
- investment-related expenses;
- general and administrative expenses;
- other expenses;
- interest expense; and
- income taxes.

Loss and loss adjustment expenses are a function of the amount and type of reinsurance contracts we write and loss experience of the underlying coverage. Loss and loss adjustment expenses are based on an actuarial analysis of the estimated losses, including losses incurred during the period and changes in estimates from prior periods. Depending on the nature of the contract, loss and loss adjustment expenses may be paid over a number of years.

Acquisition costs consist primarily of brokerage fees, ceding commissions, premium taxes and other direct expenses that relate to writing reinsurance contracts and are presented net of commissions ceded under reinsurance contracts. We amortize deferred acquisition costs in the same proportion that the premiums are earned.

Investment-related expenses primarily consist of management fees we pay to our investment manager, Third Point LLC, and certain of our Founders, and performance fees we pay to TP GP. A 2% management fee calculated on assets under management is paid monthly to Third Point LLC and certain of our Founders, and a performance fee equal to 20% of the net investment income is paid annually to TP GP. See Note 9 to our condensed consolidated financial statements for additional information on our Founders and management, performance and founders fees. We include these expenses in net investment income (loss) in our condensed consolidated statements of income (loss). The performance fee is subject to a loss carryforward provision pursuant to which TP GP is required to maintain a Loss Recovery Account which represents the sum of all prior period net loss amounts, not offset by prior year net profit amounts, and which is allocated to future profit amounts until the Loss Recovery Account has returned to a positive balance. Until such time, no performance fees are payable under the Investment Agreements.

General and administrative expenses consist primarily of salaries, benefits and related payroll costs, including costs associated with our incentive compensation plan, share compensation expense, legal and accounting fees, travel and client entertainment, fees relating to our letter of credit facilities, information technology, occupancy and other general operating expenses.

Other expenses consist of investment credit expenses on deposit liabilities and reinsurance contracts and changes in the fair value of embedded derivatives in our deposit and reinsurance contracts.

Interest expense consists of interest expense incurred on TPRUSA's \$115.0 million senior unsecured notes (the "Notes") issued in February 2015. The Notes bear interest at 7.0% and interest is payable semi-annually on February 13 and August 13 of each year. Also included in interest expense is the amortization of certain costs incurred in issuing the Notes. These costs are amortized over the term of the debt and are included in interest expense.

Income taxes consist primarily of taxes incurred in the U.S. as a result of our U.S. operations and withholding taxes and uncertain tax positions on certain investment transactions in the U.S. and in certain foreign jurisdictions.

### **Critical Accounting Policies and Estimates**

For a summary of our significant accounting and reporting policies, please refer to Note 2, "Significant accounting policies", included in our 2015 Form 10-K.

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions. We believe that the accounting policies that require the most significant judgments and estimations by management are: (1) premium revenue recognition including evaluation of risk transfer, (2) loss and loss adjustment expense reserves, and (3) fair value measurements related to our investments. 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 adverse effect on our results of operations and financial condition.

There have been no material changes in our critical accounting estimates for the three months ended March 31, 2016. Refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in our 2015 Form 10-K.

### **Business Outlook**

The reinsurance markets in which we operate have historically been cyclical. During periods of excess underwriting capacity, as defined by the availability of capital, competition can result in lower pricing and less favorable policy terms and conditions for insurers and reinsurers. During periods of reduced underwriting capacity, pricing and policy terms and conditions are generally more favorable for insurers and reinsurers. Historically, underwriting capacity has been affected by several factors, including industry losses, the impact of catastrophes, changes in legal and regulatory guidelines, new entrants, investment results including interest rate levels and the credit ratings and financial strength of competitors.

While management believes pricing remains adequate for certain types of business on which we focus, there is significant underwriting capacity currently available. Market conditions remain challenging, having deteriorated during the period, and we believe they could deteriorate further in the near term. The property catastrophe reinsurance segment faces pricing pressure due to an influx of capacity from collateralized reinsurance and other insurance-linked securities vehicles and the absence of significant catastrophe events during 2013, 2014, 2015 and the first quarter of 2016. We believe that traditional reinsurers are more aggressively pursuing our targeted lines of business in response to deteriorating property catastrophe market conditions.

We focus on segments and clients where we believe we benefit from relatively more attractive pricing opportunities due to the strength of our relationships, the tailored nature of our reinsurance solutions or an acute need for reinsurance capital as a result of a client's growth or historically poor performance. Most of our senior management team have spent decades within the reinsurance market and have strong relationships with intermediaries and reinsurance buyers from which we are receiving a strong flow of submissions in the lines and types of reinsurance we target. Although we are typically presented by brokers with proposed structures on syndicated deals, we often seek to customize the proposed solution for the client while improving our risk and return profile and establishing our position as the lead reinsurer in the transaction. We also look for non-syndicated opportunities where a highly customized solution is needed. These solutions may take the form of aggregate stop loss covers, loss portfolio transfers or other forms of reserve covers where clients seek capital relief and enhanced investment returns on the assets that back their loss and unearned premium reserves. We continue to see strong submission flow in this space.

After four years of significant premium growth and float generation, we believe we have reached a level that supports our fixed expense base and appropriately utilizes our capital. Given the continued deterioration in market conditions and our focus on improving our underwriting results, we expect to remain selective in our underwriting, which may slow the rate of growth in gross written premium.

In recent months, there has been significant merger and acquisition activity in the insurance and reinsurance markets that we believe will have a modest, net negative impact on us. The primary negative impact from consolidation is the

merging of primary insurance and reinsurance companies, which reduces the number of potential reinsurance buyers and increases their size, allowing them to retain proportionally more insurance risk. We believe the negative impact will be partially offset by the benefits to us of recent consolidation among reinsurance companies, which has reduced the number of our competitors in a market where reinsurance buyers and brokers generally prefer to syndicate their placement and want counterparty choices. Another benefit of the recent merger and acquisition activity is that we are now one of only a few reinsurance companies that are not affiliated with a primary insurance company. We are seeing some business from reinsurance buyers that we believe do not want to be reinsured by their competitors.

In February 2015, we began reinsurance operations in the United States through Third Point Re USA, a Bermuda company licensed as a Class 4 insurer and a wholly owned operating subsidiary of TPRUSA. Third Point Re USA's U.S. presence is a strategic component of our overall growth strategy. As a result of Third Point Re USA's U.S. presence, we have expanded our marketing activities and have broadened our profile in the U.S. marketplace. In addition to developing new opportunities, we are strengthening our relationships with existing cedents and brokers. We also intend to continue developing a firsthand understanding of cedent underwriting and claims capabilities that will benefit our underwriting decisions.

### **Consolidated Results of Operations—Three months ended March 31, 2016 and 2015:**

The following table sets forth the key items discussed in the consolidated results of operations section, and the period over period change, for the three months ended March 31, 2016 and 2015:

|                                                                 | 2016              | 2015       | Increase<br>(decrease) |
|-----------------------------------------------------------------|-------------------|------------|------------------------|
|                                                                 | (\$ in thousands) |            |                        |
| Net underwriting loss (1)                                       | \$ (6,623)        | \$ (3,859) | \$ (2,764)             |
| Net investment income (loss)                                    | (40,110)          | 64,918     | (105,028)              |
| Net investment return on investments managed by Third Point LLC | (2.0)%            | 3.0%       | (5.0)%                 |
| General and administrative expenses (2)                         | (4,226)           | (4,908)    | (682)                  |
| Interest expense                                                | (2,048)           | (1,036)    | 1,012                  |
| Foreign exchange gains                                          | 2,386             | 193        | 2,193                  |
| Income tax (expense) benefit                                    | 1,929             | (1,305)    | (3,234)                |
| Net income (loss)                                               | \$ (51,129)       | \$ 50,470  | \$ (101,599)           |

(1) Property and Casualty Reinsurance segment only.

(2) Corporate function only.

The primary driver of our results of operations is the performance of our investments managed by Third Point LLC. Given the nature of the underlying investment strategies, we expect volatility in our investment returns and therefore in our consolidated net income (loss). The net investment loss for the three months ended March 31, 2016 was a result of lower investment returns, primarily driven by unrealized losses in our long equity portfolio.

The other key changes in net income (loss) for the three months ended March 31, 2016 compared to the prior year period were primarily due to the following:

- The increase in net underwriting loss and related combined ratio primarily reflects changes in business mix and deterioration in market conditions.
- In February 2015, TPRUSA issued \$115.0 million of senior notes bearing 7.0% interest. As a result, our consolidated results of operations for the current year period includes a full quarter of interest expense.
- The increase in foreign exchange gains was primarily due to the revaluation of foreign currency loss and loss adjustment expense reserves denominated in British Pounds where the United States Dollar strengthened in the the current year period.

- As a result of the pre-tax loss generated by our U.S. subsidiaries for the three months ended March 31, 2016, we recorded an income tax benefit compared to a tax expense for the three months ended March 31, 2015 as a result of the pre-tax income in that period.

### Segment Results—Three months ended March 31, 2016 and 2015.

The determination of our reportable segments is based on the manner in which management monitors the performance of our operations. For the period presented, our business comprises one operating segment, Property and Casualty Reinsurance. We have also identified a corporate function that includes investment results, certain general and administrative expenses related to corporate activities, interest expense and income tax expense.

#### *Property and Casualty Reinsurance*

The following table sets forth net underwriting results and ratios, and the period over period change for the Property and Casualty Reinsurance segment for the three months ended March 31, 2016 and 2015:

|                                                 | 2016               | 2015             | Increase<br>(decrease) |
|-------------------------------------------------|--------------------|------------------|------------------------|
|                                                 | (\$ in thousands)  |                  |                        |
| Gross premiums written                          | \$ 197,156         | \$ 213,383       | \$ (16,227)            |
| Net premiums earned                             | 136,802            | 139,117          | (2,315)                |
| Loss and loss adjustment expenses incurred, net | 84,676             | 81,746           | 2,930                  |
| Acquisition costs, net                          | 51,687             | 54,663           | (2,976)                |
| General and administrative expenses             | 7,062              | 6,567            | 495                    |
| Net underwriting loss                           | (6,623)            | (3,859)          | (2,764)                |
| Net investment income (loss) on float           | (8,261)            | 18,575           | (26,836)               |
| Other expenses                                  | (2,706)            | (2,701)          | 5                      |
| <b>Segment loss</b>                             | <b>\$ (17,590)</b> | <b>\$ 12,015</b> | <b>\$ (29,605)</b>     |
| <b>Underwriting ratios (1):</b>                 |                    |                  |                        |
| Loss ratio                                      | 61.9%              | 58.8%            | 3.1 %                  |
| Acquisition cost ratio                          | 37.8%              | 39.3%            | (1.5)%                 |
| Composite ratio                                 | 99.7%              | 98.1%            | 1.6 %                  |
| General and administrative expense ratio        | 5.2%               | 4.7%             | 0.5 %                  |
| <b>Combined ratio</b>                           | <b>104.9%</b>      | <b>102.8%</b>    | <b>2.1 %</b>           |

(1) Underwriting ratios are calculated by dividing the related expense by net premiums earned.

#### *Gross Premiums Written*

The amount of gross premiums written and earned that we recognize can vary significantly from period to period due to several reasons, which include:

- We write a small number of large contracts so individual renewals or new business can have a significant impact on premiums recognized in a period;
- We offer customized solutions to our clients, including reserve covers, on which we will not have a regular renewal opportunity;
- We record gross premiums written and earned for reserve covers, which are considered retroactive reinsurance contracts, at the inception of the contract;
- We write multi-year contracts that do not necessarily renew in a comparable period;
- Our reinsurance contracts often contain commutation provisions or can be canceled or terminated upon agreement from both parties; and

- Our reinsurance contracts are subject to significant judgment in the amount of premiums that we expect to recognize and changes in premium estimates are recorded in the period they are determined.

As a result of these factors, we may experience volatility in the amount of gross premiums written and net premiums earned, period to period comparisons may not be meaningful.

The following table provides a breakdown of our property and casualty reinsurance segment's gross premiums written by line of business for the three months ended March 31, 2016 and 2015:

|           | 2016              |         | 2015    |                   |
|-----------|-------------------|---------|---------|-------------------|
|           | (\$ in thousands) |         |         |                   |
| Property  | \$                | (175)   | (0.1)%  | \$ 21,456 10.1%   |
| Casualty  |                   | 11,377  | 5.8 %   | 9,853 4.6%        |
| Specialty |                   | 185,954 | 94.3 %  | 182,074 85.3%     |
|           | \$                | 197,156 | 100.0 % | \$ 213,383 100.0% |

The decrease in gross premiums written of \$16.2 million, or 7.6%, for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 was driven by:

Factors resulting in decreases:

- We recognized \$30.0 million of premium in the three months ended March 31, 2015 that did not renew in the three months ended March 31, 2016, consisting of \$21.5 million for contracts that we made a decision not to renew in 2016 due to changes in pricing and/or terms and conditions and \$8.5 million for one contract that was not subject to renewal in 2016.
- We recorded increases in premium estimates relating to prior periods of \$1.3 million and \$26.4 million for the three months ended March 31, 2016 and 2015, respectively. The changes in premium estimates for the three months ended March 31, 2016 and 2015 were due to several contracts where clients reported writing more business than initially expected.
- We recognized \$8.3 million of premiums in the three months ended March 31, 2015 that did not have comparable premiums in the current year period primarily due to one contract that was commuted and one contract that was canceled and re-written in the prior year period.

Factors resulting in increases:

- We wrote \$36.4 million of new business for the three months ended March 31, 2016, all of which was specialty business.
- We recognized \$13.1 million of premiums in the three months ended March 31, 2016 that did not have comparable premiums in the prior year period primarily due to one contract that was written on a multi-year basis in a prior period.

#### *Net Premiums Earned*

The decrease in net premiums earned in the three months ended March 31, 2016 compared to three months ended March 31, 2015 is primarily due to \$16.5 million of net premiums earned related to retroactive exposures in reinsurance contracts for the three months ended March 31, 2015 compared to \$nil for the three months ended March 31, 2016, partially offset by a larger in-force underwriting portfolio.

#### *Net Loss and Loss Adjustment Expenses*

The reinsurance contracts we write have a wide range of initial loss ratio estimates. As a result, our net loss and loss expense ratio can vary significantly from period to period depending on the mix of business. For example, property quota share contracts have a lower initial loss ratio compared to other casualty and specialty lines of business.

Our net loss and loss adjustment expenses and acquisition costs and related ratios were impacted by changes in mix of business, deterioration in market conditions and prior year reserve development. The following is a summary of reserve development for the three months ended March 31, 2016 and 2015:

For the three months ended March 31, 2016, we incurred \$0.1 million, or 0.1 percentage points, of net favorable prior years' reserve development.

The net \$0.1 million of favorable prior years' reserve development for the three months ended March 31, 2016 was accompanied by net decreases of \$0.1 million in acquisition costs, resulting in a net decrease of \$0.2 million in net underwriting loss, or 0.2 percentage points.

For the three months ended March 31, 2015, we incurred \$6.1 million, or 4.4 percentage points, of net favorable prior years' reserve development.

The \$6.1 million of favorable reserve development was offset by increases of \$7.1 million in acquisition costs primarily as a result of changes in the estimated split of the composite ratio between loss and loss adjustment expenses incurred and acquisition costs for certain contracts that have sliding scale commissions and profit commissions that vary inversely with loss experience. The net impact as a result of changes in prior years' reserves was an increase in net underwriting loss of \$1.0 million for the three months ended March 31, 2015.

#### *Acquisition costs*

Acquisition costs include commission, brokerage and excise taxes. Acquisition costs are presented net of commissions on reinsurance ceded. The reinsurance contracts we write have a wide range of acquisition cost ratios. As a result, our acquisition cost ratio can vary significantly from period to period depending on the mix of business. For example, our property quota share contracts have a higher initial acquisition cost ratio compared to other casualty and specialty lines of business due to insuring catastrophe reinsurance, which increases the acquisition cost ratio on those contracts. Our property quota share contracts are typically structured to limit the amount of property catastrophe exposure we assume. As a result, insuring catastrophe reinsurance for the property catastrophe exposure reduces the amount of premium we assume relative to the acquisition costs or is an additional component of the acquisition costs. Furthermore, a number of our contracts have a sliding scale commission or profit commission feature that will vary depending on the expected loss expense for the contract. As a result, changes in estimates of loss and loss adjustment expenses on a contract can result in changes in the sliding scale commissions or profit commissions and a contract's overall acquisition cost ratio.

The acquisition costs for the three months ended March 31, 2015 were higher due to favorable loss and loss adjustments expense development, which resulted in increases in acquisition costs in that period. Loss and loss adjustments development did not have a significant impact on the acquisition costs for the three months ended March 31, 2016.

In general, our contracts have similar expected composite ratios (combined ratio before general and administrative expenses); therefore, contracts with higher initial loss ratio estimates have lower acquisition cost ratios and contracts with lower initial loss ratios have higher acquisition cost ratios.

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

Net investment income (loss) allocated to the Property and Casualty Reinsurance segment consists of net investment income on float. The decrease in net investment income (loss) on float for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 was primarily due to lower investment returns compared to the prior year period. See the discussion of net investment income (loss) under "Corporate Function" below for explanations of the investment returns on investments managed by Third Point LLC and total net investment income (loss) for the periods presented.

#### *General and Administrative Expenses*

The increase in general and administrative expenses for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 was primarily due to increased headcount and related employee costs and increased credit facility fees due to higher usage of our letter of credit facilities partially offset by lower stock compensation expense.

### Corporate Function

The following table sets forth net income (loss) and the period over period change for the Corporate Function for the three months ended March 31, 2016 and 2015:

|                                                                 | 2016               | 2015             | Increase<br>(decrease) |
|-----------------------------------------------------------------|--------------------|------------------|------------------------|
|                                                                 | (\$ in thousands)  |                  |                        |
| Net investment income (loss) on capital                         | \$ (31,849)        | \$ 46,318        | \$ (78,167)            |
| General and administrative expenses                             | (4,226)            | (4,908)          | (682)                  |
| Interest expense                                                | (2,048)            | (1,036)          | 1,012                  |
| Foreign exchange gains                                          | 2,386              | 193              | 2,193                  |
| Income tax (expense) benefit                                    | 1,929              | (1,305)          | (3,234)                |
| Segment (income) loss attributable to non-controlling interests | 269                | (643)            | 912                    |
| <b>Segment income (loss)</b>                                    | <b>\$ (33,539)</b> | <b>\$ 38,619</b> | <b>\$ (72,158)</b>     |

### Investment Results

The primary driver of our net investment income (loss) is the returns generated by our investment portfolio managed by our investment manager, Third Point LLC. The following is a summary of the net investment return on investments managed by Third Point LLC by investment strategy for the three months ended March 31, 2016 and 2015:

|                                | 2016   | 2015   |
|--------------------------------|--------|--------|
| Long/short equities            | (1.1)% | 1.0 %  |
| Asset-backed securities        | (0.8)% | 1.8 %  |
| Corporate and sovereign credit | 0.8 %  | 0.3 %  |
| Macro and other                | (0.9)% | (0.1)% |
|                                | (2.0)% | 3.0 %  |
| S&P 500 Total Return Index     | 1.3 %  | 1.0 %  |

The net investment results for the three months ended March 31, 2016 were attributable to losses in our long equity and structured credit portfolios, which were partially offset by strong performance in performing credit and sovereign credit. Outperformance from several core portfolio positions within our long equity portfolio were more than offset by negative returns in two significant equity investments in the healthcare sector. Our investment manager, Third Point LLC, increased exposure to the performing credit portfolio during the quarter and the portfolio yielded positive returns for long investments in certain subsectors including energy and financials. Our position in Argentinian sovereign credit has continued to add to returns. Liquidity was challenged in the structured credit market during January and February resulting in a negative return for the quarter. We started the year with the lowest net portfolio exposure managed since our inception. During the quarter, Third Point LLC modestly increased exposure in the equity portfolio by opportunistically adding long investments and covering select short investments. Refer to “ITEM 3. Quantitative and Qualitative Disclosures about Market Risks” for a list of risks and factors that could adversely impact our investments results.

All of our assets managed by Third Point LLC are held in separate accounts and managed under two investment management agreements whereby TP GP, an affiliate of Third Point LLC, has a non-controlling interest in the assets held in the separate accounts. The value of the non-controlling interest is equal to the amounts invested by TP GP, plus performance fees paid earned by TP GP and investment gains and losses thereon.

Our investment manager, Third Point LLC, manages several funds and may manage other client accounts besides ours, some of which have, or may have, objectives and investment portfolio compositions similar to ours. Because of the similarity or potential similarity of our investment portfolio to other clients of our investment manager, and because, as a matter of ordinary course, Third Point LLC provides its clients, including us, and investors in its main hedge funds

with results of their respective investment portfolios following the last day of each month, those other clients or investors indirectly may have material nonpublic information regarding our investment portfolio. To address this, and to comply with Regulation FD, we will continue to post on our website under the heading Investment Portfolio Returns located in the Investors section of the website, following the close of trading on the New York Stock Exchange on the last business day of each month, our preliminary monthly investment results for that month, with additional information regarding our monthly investment results to be posted following the close of trading on the New York Stock Exchange on the first business day of the following month.

#### *General and Administrative Expenses*

General and administrative expenses allocated to our corporate function include allocations of payroll and related costs for certain executives and non-underwriting staff. We also allocate a portion of overhead and other related costs based on a related headcount analysis. The decrease for the three months ended March 31, 2016 compared to the prior year period was primarily due to lower legal and other professional advisor expenses and lower payroll and stock compensation expenses.

#### *Interest Expense*

In February 2015, TPRUSA issued \$115.0 million of senior notes bearing 7.0% interest. As a result, our consolidated results of operations include interest expense of \$2.0 million for the three months ended March 31, 2016, respectively, compared to \$1.0 million the three months ended March 31, 2015.

#### *Foreign exchange gains*

The increase in foreign exchange gains in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 was primarily due to the revaluation of foreign currency loss and loss adjustment expense reserves denominated in British Pounds where the United States Dollar strengthened in the current year period.

#### *Income Taxes*

See Note 14 to our consolidated financial statements for additional information regarding income taxes. The decrease in tax expense in three months ended March 31, 2016 compared to the three months ended March 31, 2015 is a result of the pre-tax loss generated by our U.S. subsidiaries in the current year period.

### **Liquidity and Capital Resources**

Our investment portfolio is concentrated in tradeable securities and is marked to market each day. Pursuant to our investment guidelines as specified in our two investment management agreements with Third Point LLC, at least 60% of our portfolio must be invested in securities of publicly traded companies and governments of Organization of Economic Co-operation and Development high income countries, asset-backed securities, cash, cash equivalents and gold and other precious metals. We can liquidate all or a portion of our investment portfolio at any time with not less than three days' notice to pay claims on our reinsurance contracts, and with not less than five days' notice to pay for expenses, and on not less than 30 days' notice in order to satisfy a requirement of A.M. Best. Since we do not write excess of loss property catastrophe contracts or other types of reinsurance contracts that are typically subject to sudden, acute, liquidity demands, we believe the liquidity provided by our investment portfolio will be sufficient to satisfy our liquidity requirements.

As of March 31, 2016, \$1,438.9 million, or 52.9% of our total investments in securities were classified as Level 1 assets, which are defined as securities valued using quoted prices available in active markets. See Note 4 to our condensed consolidated financial statements for additional information on the framework for measuring fair value established by U.S. GAAP disclosure requirements.

#### **General**

Third Point Reinsurance Ltd. is a holding company and has no substantial operations of its own and has moderate cash needs, most of which are related to the payment of corporate expenses. Its assets consist primarily of its investments

in subsidiaries. Third Point Reinsurance Ltd.'s ability to pay dividends or return capital to shareholders will depend upon the availability of dividends or other statutorily permissible distributions from those subsidiaries.

We and our Bermuda subsidiaries are subject to Bermuda regulatory constraints that affect our ability to pay dividends. Under the Companies Act, as amended, a Bermuda company may declare or pay a dividend out of distributable reserves only if it has reasonable grounds for believing that it is, or would after the payment, be able to pay its liabilities as they become due and if the realizable value of its assets would thereby not be less than its liabilities. Under the Insurance Act, Third Point Re and Third Point Re USA, as Class 4 insurers, are prohibited from declaring or paying a dividend if they are in breach of their respective minimum solvency margin ("MSM"), enhanced capital ratio ("ECR") or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. Where either Third Point Re or Third Point Re USA, as Class 4 insurers, fails to meet its MSM or minimum liquidity ratio on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the Bermuda Monetary Authority ("BMA").

In addition, each of Third Point Re and Third Point Re USA, as Class 4 insurers, is prohibited from declaring or paying in any financial year dividends of more than 25% of its respective total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least seven days before payment of such dividend) with the BMA an affidavit signed by at least two directors (one of whom must be a Bermuda resident director if any of the insurer's directors are resident in Bermuda) and the principal representative stating that it will continue to meet its solvency margin and minimum liquidity ratio.

As of March 31, 2016, Third Point Re could pay dividends to Third Point Reinsurance Ltd. of approximately \$243.9 million (December 31, 2015 - \$261.1 million). Third Point Re USA is also restricted by the amount of capital and surplus that is available for the payment of dividends. In order to remain in compliance with the Net Worth Maintenance Agreement it has entered into with Third Point Re USA (the "Net Worth Maintenance Agreement"), Third Point Re must have committed funds sufficient to, and must continue to, maintain a minimum level of capital at Third Point Re USA of \$250.0 million. Failure to maintain the minimum level of capital required by the Net Worth Maintenance Agreement could limit or prevent Third Point Re USA from paying dividends to us. As a result, Third Point Re USA could pay dividends ultimately to Third Point Reinsurance Ltd. of approximately \$12.1 million as of March 31, 2016 (December 31, 2015 - \$11.1 million).

In addition to the regulatory and other contractual constraints to paying dividends, we manage the capital in each of our operating subsidiaries to support our current ratings with A.M. Best. After four years of significant premium growth and float generation, we have reached a level that allows us to rationalize our expense base and appropriately utilize our capital. Given the continued deterioration in market conditions and our focus on improving our underwriting results, we plan to remain selective in our underwriting which may slow the growth rate of our gross written premium.

### ***Liquidity and Cash Flows***

Historically, our sources of funds have primarily consisted of premiums written, reinsurance recoveries, investment income and proceeds from sales and redemptions of investments. Cash is used primarily to pay loss and loss adjustment expenses, reinsurance premiums, acquisition costs, interest expenses, taxes and general and administrative expenses and to purchase investments.

Our cash flows from operations generally represent the difference between: (1) premiums collected and investment earnings realized and (2) loss and loss expenses paid, reinsurance purchased and underwriting and other expenses paid. Net cash provided by underwriting activities results from excluding investment earnings realized from our operating cash flows results in net cash provided by underwriting activities. Cash flows from operations may differ substantially from net income (loss) and may be volatile from period to period depending on the underwriting opportunities available to us and other factors. Due to the nature of our underwriting portfolio, claim payments can be unpredictable and may need to be made within relatively short periods of time. Claim payments can also be required several months or years after premiums are collected.

Operating, investing and financing cash flows for the three months ended March 31, 2016 and 2015 were as follows:

|                                                   | 2016              | 2015             |
|---------------------------------------------------|-------------------|------------------|
|                                                   | (\$ in thousands) |                  |
| Net cash provided by operating activities         | \$ 12,828         | \$ 118,016       |
| Net cash used in investing activities             | (27,732)          | (203,913)        |
| Net cash provided by financing activities         | 2,155             | 69,511           |
| Net decrease in cash and cash equivalents         | (12,749)          | (16,386)         |
| Cash and cash equivalents at beginning of period  | 20,407            | 28,734           |
| <b>Cash and cash equivalents at end of period</b> | <b>\$ 7,658</b>   | <b>\$ 12,348</b> |

Cash flows from operating activities generally represent net premiums collected less loss and loss adjustment expenses, acquisition costs and general and administrative expenses paid. The decrease in cash flows from operating activities in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 is primarily due to lower float generated from our reinsurance operations and unrealized losses as a result of negative investment returns in the three months ended March 31, 2016 compared to three months ended March 31, 2015. Excess cash generated from our operating activities is then invested by Third Point LLC, which is reflected in the cash used in investing activities.

For the three months ended March 31, 2016 and 2015, we contributed \$38.2 million and \$161.6 million, respectively, to our separate accounts managed by Third Point LLC from float generated from our reinsurance operations. These amounts do not correspond to the net cash provided by operating activities as presented in the condensed consolidated statements of cash flows prepared in accordance with U.S. GAAP. Refer to “ITEM 2. Management’s Discussion and Analysis - Property and Casualty Reinsurance” for a definition of insurance float.

Cash flows used in investment activities primarily reflects investment activities related to our separate accounts managed by Third Point LLC. Cash flows used in investing activities for the three months ended March 31, 2016 and March 31, 2015 primarily reflects the investment of float generated from our reinsurance operations. Cash flows used in investing activities for the three months ended March 31, 2015 also reflects the investment of the net proceeds from our issuance of Notes as part of the initial capitalization of Third Point Re USA.

In February 2015, we completed a public offering of senior notes issued by TPRUSA and guaranteed by Third Point Reinsurance Ltd. pursuant to a registration statement on Form S-3, from which we received net proceeds of approximately \$113.2 million, after deducting underwriting discounts and other offering costs. We used the net proceeds to TPRUSA, together with a capital contribution received indirectly from Third Point Re, to fund an aggregate contribution of \$267.0 million for the initial capitalization of Third Point Re USA.

The cash flows from financing activities for the three months ended March 31, 2016 consisted of contributions received on deposit liability contracts. The cash flows from financing activities for the three months ended March 31, 2015 consisted primarily of the proceeds from issuance of the Notes, partially offset by distributions of non-controlling interests from the investment affiliate and Catastrophe Fund.

For the period from inception until March 31, 2016, we have had sufficient cash flow from the proceeds of our initial capitalization and IPO, the issuance of Notes in February 2015 and from our operations to meet our liquidity requirements. We expect that projected operating and capital expenditure requirements and debt service requirements for at least the next twelve months will be met by our balance of cash, cash flows generated from operating activities and investment income. We may incur additional indebtedness in the future if we determine that it would be an efficient part of our capital structure.

In addition, we expect that our existing cash and cash flow from operations will provide us with the financial flexibility to execute our strategic objectives. Our ability to generate cash, however, is subject to our performance, general economic conditions, industry trends and other factors. To the extent existing cash and cash equivalents, investment returns and operating cash flow are insufficient to fund our future activities and requirements, we may need to raise additional funds through public or private equity or debt financing. If we issue equity securities in order to raise additional funds,

substantial dilution to existing shareholders may occur. If we raise cash through the issuance of additional indebtedness, we may be subject to additional contractual restrictions on our business. There is no assurance that we would be able to raise the additional funds on favorable terms or at all. There are regulatory and contractual restrictions and rating agency considerations that might impact the ability of our reinsurance subsidiaries to pay dividends to their respective parent companies, including for purposes of servicing TPRUSA's debt obligations.

We do not believe that inflation has had a material effect on our consolidated results of operations to date. The effects of inflation are considered implicitly in pricing our reinsurance contracts. Loss reserves are established to recognize likely loss settlements at the date payment is made. Those reserves inherently recognize the effects of inflation. However, the actual effects of inflation on our results cannot be accurately known until claims are ultimately resolved.

### ***Cash, Restricted Cash and Cash Equivalents and Restricted Investments***

Cash and cash equivalents consist of cash held in banks and other short-term, highly liquid investments with original maturity dates of ninety days or less.

See Note 3 to our condensed consolidated financial statements for additional information on restricted cash, cash equivalents and investments.

Restricted cash and cash equivalents and restricted investments increased by \$91.9 million, or 14.8%, to \$714.9 million as of March 31, 2016 from \$623.0 million as of December 31, 2015. The increase was primarily due to an increase in the number of reinsurance contracts that required collateral partially offset by lower letter of credit usage. In addition, we are now investing a portion of the collateral securing certain reinsurance contracts in U.S. treasury securities and sovereign debt. This portion of the collateral is included in debt securities in the consolidated balance sheets and is disclosed as part of restricted investments.

### **Letter of Credit Facilities**

See Note 11 to our consolidated financial statements for additional information regarding our letter of credit facilities.

As of March 31, 2016, \$263.7 million (December 31, 2015 - \$270.4 million) of letters of credit, representing 52.7% of the total available facilities, had been issued (December 31, 2015 - 49.2% (based on total available facilities of \$550.0 million)).

Under the facilities, we provide collateral that may consist of equity securities, repurchase agreements, restricted cash, and cash and cash equivalents. As of March 31, 2016, total cash and cash equivalents with a fair value of \$263.7 million (December 31, 2015 - \$270.8 million) was pledged as security against the letters of credit issued. Our ability to post collateral securing letters of credit and certain reinsurance contracts depends in part on our ability to borrow against certain assets in our Investment Accounts through prime brokerage arrangements. See Note 6 to our consolidated financial statements for additional information regarding our prime brokerage arrangements. The loss or reduction in this borrowing capacity could reduce the amount of reinsurance we write or reduce the amount of float that we contribute to our Investment Accounts. These amounts are included in restricted cash and cash equivalents in the condensed consolidated balance sheets. Each of the facilities contain customary events of default and restrictive covenants, including but not limited to, limitations on liens on collateral, transactions with affiliates, mergers and sales of assets, as well as solvency and maintenance of certain minimum pledged equity requirements and an A.M. Best Company rating of "A-" or higher. Each restricts issuance of any debt without the consent of the letter of credit provider. Additionally, if an event of default exists, as defined in the letter of credit facilities, we will be prohibited from paying dividends. We were in compliance with all of the covenants under the aforementioned facilities as of March 31, 2016.

### **Financial Condition**

#### ***Shareholders' equity***

As of March 31, 2016, total shareholders' equity was \$1,347.1 million, compared to \$1,395.9 million as of December 31, 2015. The decrease was primarily due to a net loss of \$51.1 million, partially offset by share compensation expense totaling \$2.7 million in the current year period.

### ***Investments***

As of March 31, 2016, total cash and net investments managed by Third Point LLC was \$2,059.7 million, compared to \$2,062.8 million as of December 31, 2015. The decrease was primarily due to net investment losses on investments managed by Third Point LLC of \$40.4 million, partially offset by float of \$38.2 million generated by our reinsurance operations.

### **Contractual Obligations**

There have been no material changes to our contractual obligations from our most recent Annual Report on Form 10-K, as filed with the SEC.

### **Off-Balance Sheet Commitments and Arrangements**

We have no obligations, assets or liabilities, other than those derivatives in our investment portfolio and disclosed in the notes to our condensed consolidated financial statements, 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.

As of March 31, 2016, we had an unfunded capital commitment of \$3.5 million related to our investment in the Hellenic Fund (see Note 17 to our condensed consolidated financial statements for additional information).

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

We believe we are principally exposed to the following types of market risk:

- equity price risk;
- foreign currency risk;
- interest rate risk;
- commodity price risk;
- credit risk;
- liquidity risk; and
- political risk.

### ***Equity Price Risk***

Our investment manager, Third Point LLC, continually tracks the performance and exposures of our investment portfolio, each strategy and sector, and selective individual securities. A particular focus is placed on “beta” exposure, which is the portion of the portfolio that is directly correlated to risks and movements of the equity market as a whole (usually represented by the S&P 500 index) as opposed to idiosyncratic risks and factors associated with a specific position. Further, the performance of our investment portfolio has historically been compared to several market indices, including the S&P 500, CS/Tremont Event Driven Index, HFRI Event Driven Index, and others.

As of March 31, 2016, our investment portfolio included long and short equity securities, along with certain equity-based derivative instruments, the carrying values of which are primarily based on quoted market prices. Generally, market prices of common equity securities are subject to fluctuation, which could cause the amount to be realized upon the closing of the position to differ significantly from their current reported value. This risk is partly mitigated by the presence of both long and short equity securities in our investment portfolio. As of March 31, 2016, a 10% decline in the value of all equity and equity-linked derivatives would result in a loss of \$109.6 million, or 5.3% in the fair value of our total net investments managed by Third Point LLC.

Computations of the prospective effects of hypothetical equity price changes are based on numerous assumptions, including the maintenance of the existing level and composition of investment securities and should not be relied on as indicative of future results.

## Foreign Currency Risk

### Reinsurance Contracts

We have foreign currency exposure related to non-U.S. dollar denominated reinsurance contracts. Of our gross premiums written from inception, \$246.9 million, or 11.8%, were written in currencies other than the U.S. dollar. For these contracts, non-U.S. dollar assets generally offset liabilities in the same non-U.S. dollar currencies resulting in minimal net exposure. As of March 31, 2016, loss and loss adjustment expense reserves included \$93.0 million (December 31, 2015 - \$98.2 million) in foreign currencies.

### Investments

Third Point LLC continually measures foreign currency exposures in the investment portfolio and compares current exposures to historical movement within the relevant currencies. Within the typical course of business, Third Point LLC may decide to hedge foreign currency risk within our investment portfolio by using short-term forward contracts; however, from time to time Third Point LLC may determine not to hedge based on its views of the likely movements of the underlying currency.

We are exposed to foreign currency risk through cash, forwards, options and investments in securities denominated in foreign currencies. Foreign currency exchange rate risk is the potential for adverse changes in the U.S. dollar value of investments (long and short) and foreign currency derivative instruments, which we employ from both a speculative and risk management perspective, due to a change in the exchange rate of the foreign currency in which cash and financial instruments are denominated. As of March 31, 2016, our total net short exposure to foreign denominated securities represented 6.3% (December 31, 2015 - 6.3%) of our investment portfolio including cash and cash equivalents, of \$131.7 million (December 31, 2015 - \$130.8 million).

The following table summarizes the net impact that a 10% increase and decrease in the value of the U.S. dollar against select foreign currencies would have had on the value of our investment portfolio as of March 31, 2016:

|                     | 10% increase in U.S. dollar |                                                   | 10% decrease in U.S. dollar |                                                   |
|---------------------|-----------------------------|---------------------------------------------------|-----------------------------|---------------------------------------------------|
|                     | Change in fair value        | Change in fair value as % of investment portfolio | Change in fair value        | Change in fair value as % of investment portfolio |
|                     | (\$ in thousands)           |                                                   |                             |                                                   |
| Saudi Arabian Riyal | \$ 10,790                   | 0.52 %                                            | \$ (10,790)                 | (0.52)%                                           |
| Euro                | 462                         | 0.02 %                                            | (462)                       | (0.02)%                                           |
| Japanese Yen        | 191                         | 0.01 %                                            | (191)                       | (0.01)%                                           |
| British Pound       | (1,626)                     | (0.08)%                                           | 1,626                       | 0.08 %                                            |
| Other               | 524                         | 0.03 %                                            | (524)                       | (0.03)%                                           |
| Total               | \$ 10,341                   | 0.50 %                                            | \$ (10,341)                 | (0.50)%                                           |

### Interest Rate Risk

Our investment portfolio includes interest rate sensitive securities, such as corporate and sovereign debt instruments, asset-backed securities ("ABS"), and interest rate options. One key market risk exposure for any debt instrument is interest rate risk. As interest rates rise, the fair value of our long fixed-income portfolio falls, and the opposite is also true as interest rates fall. Additionally, some of our corporate and sovereign debt instruments, ABS and derivative investments may also be credit sensitive and their value may indirectly fluctuate with changes in interest rates.

The effects of interest rate movement have historically not had a material impact on the performance of our investment portfolio as managed by Third Point LLC. However, our investment manager monitors the potential effects of interest rate shifts by performing stress tests against the portfolio composition using a proprietary in-house risk system.

The following table summarizes the impact that a 100 basis point increase or decrease in interest rates would have on the value of our investment portfolio as of March 31, 2016:

|                                          | 100 basis point increase in interest rates |                                                   | 100 basis point decrease in interest rates |                                                   |
|------------------------------------------|--------------------------------------------|---------------------------------------------------|--------------------------------------------|---------------------------------------------------|
|                                          | Change in fair value                       | Change in fair value as % of investment portfolio | Change in fair value                       | Change in fair value as % of investment portfolio |
|                                          | (\$ in thousands)                          |                                                   |                                            |                                                   |
| Corporate and Sovereign Debt Instruments | \$ (24,555)                                | (1.2)%                                            | \$ 26,528                                  | 1.3%                                              |
| Asset Backed Securities <sup>(1)</sup>   | (11,817)                                   | (0.6)%                                            | 12,894                                     | 0.6%                                              |
| Net exposure to interest rate risk       | \$ (36,372)                                | (1.8)%                                            | \$ 39,422                                  | 1.9%                                              |

(1) Includes instruments for which durations are available on March 31, 2016. Includes a convexity adjustment if convexity is available. Not included are mortgage hedges which would reduce the impact of interest rate changes.

For the purposes of the above table, the hypothetical impact of changes in interest rates on debt instruments, ABS, and interest rate options was determined based on the interest rates and credit spreads applicable to each instrument individually. We and our investment manager periodically monitor our net exposure to interest rate risk and generally do not expect changes in interest rates to have a materially adverse impact on our operations.

### **Commodity Price Risk**

In managing our investment portfolio, Third Point LLC periodically monitors and actively trades to take advantage of, and/or seeks to minimize any losses from, fluctuations in commodity prices. As our investment manager, Third Point LLC may choose to opportunistically make a long or short investment in a commodity or in a security directly affected by the price of a commodity as a response to market developments. From time to time, we invest in commodities or commodities exposures in the form of derivative contracts from both a speculative and risk management perspective. Generally, market prices of commodities are subject to fluctuation.

As of March 31, 2016, our investment portfolio had commodity exposure of 1.1% of net investments managed by Third Point LLC.

We and our investment manager periodically monitor our exposure to commodity price fluctuations and generally do not expect changes in commodity prices to have a material adverse impact on our operations.

### **Credit Risk**

#### *Reinsurance Contracts*

We are exposed to credit risk from our clients relating to balances receivable under our reinsurance contracts, including premiums receivable, and the possibility that counterparties may default on their obligations to us. The risk of counterparty default is partially mitigated by the fact that any amount owed to us from a reinsurance counterparty would be netted against any losses we would pay in the future. We monitor the collectability of these balances on a regular basis.

We also have credit risk exposure in several reinsurance contracts with companies that write credit risk insurance. We have written \$141.8 million of credit and financial lines premium since inception, which consists primarily of exposure to mortgage insurance credit risks.

#### *Investments*

We are also exposed to credit risk through our investment activities related to our separate accounts managed by Third Point LLC. Third Point LLC typically performs intensive fundamental analysis on the broader markets, credit spreads, security-specific information, and the underlying issuers of debt securities that are contained in our investment portfolio.

In addition, the securities and cash in our investment portfolio are held with several prime brokers, subjecting us to the related credit risk from the possibility that one or more of them may default on their obligations to us. Our investment

manager closely and regularly monitors the concentration of credit risk with each broker and if necessary, transfers cash or securities among brokers to diversify and mitigate our credit risk.

As of March 31, 2016 and December 31, 2015, the largest concentration of our asset-backed securities (“ABS”) holdings were as follows:

|                                 | <b>March 31, 2016</b> |         | <b>December 31, 2015</b> |                   |
|---------------------------------|-----------------------|---------|--------------------------|-------------------|
|                                 | (\$ in thousands)     |         |                          |                   |
| Re-REMIC (1)                    | \$                    | 136,921 | 31.8%                    | \$ 195,889 39.6%  |
| Subprime RMBS                   |                       | 174,238 | 40.5%                    | 174,777 35.3%     |
| Collateralized debt obligations |                       | 48,896  | 11.4%                    | 50,455 10.2%      |
| Other (2)                       |                       | 69,850  | 16.3%                    | 73,602 14.9%      |
|                                 | \$                    | 429,905 | 100.0%                   | \$ 494,723 100.0% |

(1) Mezzanine portions of the re-securitized real estate mortgage investment conduits (“re-REMIC”) structure of ABS.

(2) Other includes: U.S. Alt-A positions, commercial mortgage-backed securities, market place loans, Non-U.S. RMBS and student loans ABS.

As of March 31, 2016, all of our ABS holdings were private-label issued, non-investment grade securities, and none of these securities were guaranteed by a government sponsored entity. As a result of its investment in these types of ABS, our investment portfolio is exposed to the credit risk of underlying borrowers, which may not be able to make timely payments on loans or which may default on their loans. All of these classes of ABS are sensitive to changes in interest rates and any resulting change in the rate at which borrowers sell their properties (in the case of mortgage-backed securities), refinance, or otherwise pre-pay their loans. As an investor in these classes of ABS, we may be exposed to the credit risk of underlying borrowers not being able to make timely payments on loans or the likelihood of borrowers defaulting on their loans. In addition, we may be exposed to significant market and liquidity risks.

### ***Liquidity Risk***

Certain of our investments may become illiquid. Disruptions in the credit markets may materially affect the liquidity of certain investments, including ABS, which represent 16.0% (December 31, 2015 - 19.2%) of total cash and investments as of March 31, 2016. If we require significant amounts of cash on short notice in excess of normal cash requirements, which could include the payment of claims expenses or to satisfy a requirement of A.M. Best, in a period of market illiquidity, the investments may be difficult to sell in a timely manner and may have to be disposed of for less than what may otherwise have been possible under normal conditions. As of March 31, 2016, we had \$1,438.9 million (December 31, 2015 - \$1,182.3 million) of unrestricted, liquid investment assets, defined as unrestricted cash and investments and securities with quoted prices available in active markets/exchanges.

### ***Political Risk***

#### ***Investments***

We are exposed to political risk to the extent our investment manager trades securities that are listed on various U.S. and foreign exchanges and markets. The governments in any of these jurisdictions could impose restrictions, regulations or other measures, which may have a material impact on our investment strategy and underwriting operations.

In managing our investment portfolio, Third Point LLC routinely monitors and assesses relative levels of risks associated with local political and market conditions and focuses its investments primarily in countries in which it believes the rule of law is respected and followed, thereby affording more predictable outcomes of investments in that country.

#### ***Reinsurance Contracts***

We also have political risk exposure in several reinsurance contracts with companies that write political risk insurance.

## **Recent Accounting Pronouncements**

Refer to Note 2 to our condensed consolidated financial statements for the three months ended March 31, 2016 included in Item 1 of this Quarterly Report on Form 10-Q for details of recently issued accounting standards.

## **ITEM 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Management, with the participation of our Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of March 31, 2016. Based upon this evaluation, our Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2016.

### **Changes in Internal Control over Financial Reporting**

There have been no material changes to our internal control over financial reporting in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) under the Exchange Act during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - Other Information**

## **ITEM 1. Legal Proceedings**

We anticipate that, similar to the rest of the reinsurance industry, we will be subject to litigation and arbitration from time to time in the ordinary course of business.

If we are subject to disputes in the ordinary course of our business we anticipate engaging in discussions with the parties to the applicable contract to seek to resolve the matter. If such discussions are unsuccessful, we anticipate invoking the dispute resolution provisions of the relevant contract, which typically provide for the parties to submit to arbitration or litigation, as applicable, to resolve the dispute.

There are currently no material legal proceedings to which we or our subsidiaries are a party.

## **ITEM 1A. Risk Factors**

There have been no material changes to the risk factors previously disclosed in our Form 10-K filed with the Securities and Exchange Commission on February 26, 2016.

## **ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

- a)* Not applicable
- b)* Not applicable
- c)* Not applicable

## **ITEM 3. Defaults Upon Senior Securities**

None.

## **ITEM 4. Mine Safety Disclosures**

Not applicable.

## **ITEM 5. Other Information**

The Shareholder Package was mailed to shareholders on March 28, 2016, which is an update to the date previously indicated in the proxy. As a result, in order to submit shareholder proposals for the 2017 annual general meeting of shareholders for inclusion in the Company's proxy statement pursuant to SEC Rule 14a-8, materials must be received

by the Secretary at the Company's principal office at Point House, 3 Waterloo Lane, Pembroke HM 08, Bermuda, no later than November 28, 2016.

## ITEM 6. Exhibits

- 31.1 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
- 31.2 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
- 32.1\* Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2\* Certification of 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
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Extension Labels Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

- \* This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

## SIGNATURES

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

Date: May 6, 2016

Third Point Reinsurance Ltd.

/s/ John R. Berger

John R. Berger

Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

/s/ Christopher S. Coleman

Christopher S. Coleman

Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

**Third Point Reinsurance Ltd.**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(a) OF THE EXCHANGE ACT, AS AMENDED,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John R. Berger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Third Point Reinsurance Ltd.;
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 the 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 control 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 6, 2016

/s/ John R. Berger

---

John R. Berger

Chairman of the Board and Chief Executive Officer

(Principal Executive Officer)

**Third Point Reinsurance Ltd.**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(a) OF THE EXCHANGE ACT, AS AMENDED,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher S. Coleman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Third Point Reinsurance Ltd.;
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 the 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 control 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 6, 2016

/s/ Christopher S. Coleman

---

Christopher S. Coleman

Chief Financial Officer

(Principal Financial and Accounting Officer)

**Third Point Reinsurance Ltd.**

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

I, John R. Berger, Chief Executive Officer and Chairman of the Board of Third Point Reinsurance Ltd. (the “Company”), do hereby 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 my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the fiscal period ended March 31, 2016 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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 6, 2016

/s/ John R. Berger

---

John R. Berger

Chairman of the Board and Chief Executive Officer

(Principal Executive Officer)

**Third Point Reinsurance Ltd.**

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

I, Christopher S. Coleman, Chief Financial Officer of Third Point Reinsurance Ltd. (the “Company”), do hereby 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 my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the fiscal period ended March 31, 2016 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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 6, 2016

/s/ Christopher S. Coleman

---

Christopher S. Coleman

Chief Financial Officer

(Principal Financial and Accounting Officer)