

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K

☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the fiscal year ended December 31, 2017

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**

(State or other jurisdiction of incorporation or organization)

**3 Waterloo Lane**

**Pembroke, Bermuda, HM 08**

(Address of principal executive offices and zip code)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

**98-1039994**

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

**(441) 542 3300**

(Registrant's telephone number)

Title of each class

Common Shares, \$0.10 par value

Name of each exchange on which registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☐ No ☒

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes ☐ No ☒

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

The aggregate market value of the shares of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2017 was \$917.5 million.

As of February 26, 2018, there were 103,282,427 common shares of the registrant's common shares outstanding, including 1,864,482 restricted shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III incorporates information from certain portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2017.

**Third Point Reinsurance Ltd.**

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## INTRODUCTORY NOTE

*Unless the context otherwise indicates or requires, as used in this Annual Report on Form 10-K references to “we,” “our,” “us,” and the “Company,” refer to Third Point Reinsurance Ltd. (“Third Point Re” or “TPRE”) and its directly and indirectly owned subsidiaries, including Third Point Reinsurance Company Ltd. (“Third Point Re BDA”) 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 Re exclusive of its subsidiaries. We refer to Third Point Re (USA) Holdings, Inc. as “TPRUSA”, Third Point Reinsurance Investment Management Ltd. 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.” “Fiscal,” when used in reference to any twelve-month period ended December 31, refers to our fiscal years ended December 31. Unless otherwise indicated, information contained in this Annual Report is as of December 31, 2017. We have made rounding adjustments to reach some of the figures included in this Annual Report and, unless otherwise indicated, percentages presented in this Annual Report are approximate.*

### Cautionary Note Regarding Forward-Looking Statements

Certain statements contained or incorporated in this Annual Report include forward-looking statements. 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 Annual Report on Form 10-K.

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:

- results of operations fluctuate and may not be indicative of our prospects;
- more established competitors;
- losses exceeding reserves;
- highly cyclical property and casualty reinsurance industry;
- downgrade or withdrawal of ratings by rating agencies;
- significant decrease in our capital or surplus;
- dependence on key executives;
- dependence on letter of credit facilities that may not be available on commercially acceptable terms;
- inability to service our indebtedness;
- limited cash flow and liquidity due to our indebtedness;
- inability to raise necessary funds to pay principal or interest on debt;
- potential lack of availability of capital in the future;
- credit risk associated with the use of reinsurance brokers;
- future strategic transactions such as acquisitions, dispositions, mergers or joint ventures;
- dependence on Third Point LLC to implement our investment strategy;
- decline in revenue due to poor performance of our investment portfolio;
- risks associated with our investment strategy being greater than those faced by competitors;
- termination by Third Point LLC of our investment management agreements;
- potential conflicts of interest with Third Point LLC;

- losses resulting from significant investment positions;
- credit risk associated with the default on obligations of counterparties;
- ineffective investment risk management systems;
- fluctuations in the market value of our investment portfolio;
- trading restrictions being placed on our investments;
- limited termination provisions in our investment management agreements;
- limited liquidity and lack of valuation data on our investments;
- U.S. and global economic downturns;
- specific characteristics of investments in mortgage-backed securities and other asset-backed securities, in securities of issues based outside the U.S., and in special situation or distressed companies;
- loss of key employees at Third Point LLC;
- Third Point LLC's compensation arrangements may incentivize investments that are risky or speculative;
- increased regulation or scrutiny of alternative investment advisers affecting our reputation;
- suspension or revocation of our reinsurance licenses;
- potentially being deemed an investment company under U.S. federal securities law;
- failure of reinsurance subsidiaries to meet minimum capital and surplus requirements;
- changes in Bermuda or other law and regulation that may have an adverse impact on our operations;
- Third Point Re and/or Third Point Re BDA potentially becoming subject to U.S. federal income taxation;
- potential characterization of Third Point Re and/or Third Point Re BDA as a passive foreign investment company;
- subjection of our affiliates to the base erosion and anti-abuse tax;
- potentially becoming subject to U.S. withholding and information reporting requirements under the Foreign Account Tax Compliance Act; and
- other risks and factors listed under "Item 1A. Risk Factors" and elsewhere in this Annual Report.

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.

## **PART I.**

### **Item 1. Business**

#### **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.

Our reinsurance strategy is to be highly opportunistic and disciplined. During periods of extremely competitive or soft reinsurance market conditions, we intend to be selective with regard to the amount and type of reinsurance we write and conserve our risk-taking capital for periods when market conditions are more favorable to us from a pricing and terms and conditions perspective.

Our senior management team has significant senior leadership and underwriting experience in the reinsurance industry. We believe that our experience and longstanding relationships with our insurance and reinsurance company clients, senior reinsurance brokers, insurance regulators and rating agencies are an important competitive advantage.

Substantially all of our investable assets are managed by our investment manager, Third Point LLC, which is wholly owned by Daniel S. Loeb, one of our founding shareholders. Third Point LLC is an SEC-registered investment adviser headquartered in New York, managing \$17.8 billion in assets as of December 31, 2017. We directly own our investments, which are held in separate accounts and are managed by Third Point LLC on substantially the same basis as its main hedge funds, including Third Point Partners L.P., the original Third Point LLC hedge fund.

We were incorporated on October 6, 2011 and completed our initial capitalization transaction in December 2011 with \$784.3 million of equity capital, and commenced underwriting business on January 1, 2012. Both of our operating subsidiaries have an A- (Excellent) financial strength rating from A.M. Best Company, Inc., or A.M. Best.

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

In August 2013, we completed an initial public offering (“IPO”) of 24,832,484 common shares. Our common shares are listed on the New York Stock Exchange (“NYSE”) under the symbol “TPRE”.

### **Segment Information**

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, foreign exchange gains (losses) and income tax expense. Prior to 2016, we also had the Catastrophe Risk Management reporting segment, however, all investments in the Catastrophe Fund were redeemed as of December 31, 2015 and we completed the dissolution of the Catastrophe Fund and Catastrophe Reinsurer in February 2016. As a result, there is no further activity in the Catastrophe Risk Management segment. For more information, see Note 22 of our audited consolidated financial statements included elsewhere in this Annual Report.

### **Reinsurance Strategy**

Our current reinsurance strategy is to build a portfolio that generates stable underwriting results, with margins commensurate with the amount of risk assumed, by opportunistically targeting sub-sectors of the market and specific situations where reinsurance capacity and alternatives may be constrained. Our management team has differentiated expertise that allows us to identify profitable reinsurance opportunities. The level of volatility in our reinsurance portfolio will be determined by market conditions, but will typically be lower than that of most other reinsurance companies. We manage reinsurance volatility by predominantly focusing on lines of business that have historically demonstrated more stable return characteristics. We seek to further manage the volatility of our reinsurance results by writing reinsurance contracts on a quota share basis, where we assume an agreed percentage of premiums and losses for a portfolio of insurance policies or reinsurance contracts. We also make use of contractual terms and conditions within our reinsurance contracts that may include individual or aggregate loss occurrence limits, which limit the dollar amount of loss that we can incur from a particular occurrence or series of occurrences within the term of the reinsurance contract; loss ratio caps, which limit the maximum loss we can incur pursuant to a contract to a defined loss ratio; sliding scale commissions or profit commissions that vary in accordance with the client’s performance; loss corridors, which limit the dollar amount of loss within a contract structure; and sub-limits and exclusions for specific risks not covered by a particular reinsurance contract.

We also write reinsurance contracts that provide protection against adverse development on loss reserves where we provide an incremental amount of additional coverage limit. We typically provide coverage where we agree with the

client's reserving practices and reserve levels or where we believe there are structural or contractual safeguards in place. While these transactions may be booked at, or slightly above, a 100% composite ratio (combined ratio before general and administrative expenses) and therefore do not initially generate underwriting income, they produce premiums and float equal to the reserves at the inception of the contract. In some instances, the level of risk in the reserve cover contract or the risk mitigating features within the contract including limitations on the amount and timing of loss payments require us to account for the contract as a deposit liability contract. Using the deposit method of accounting, a deposit liability, rather than written premium, is initially recorded based upon the consideration received less any explicitly identified premiums or fees. In subsequent periods, the deposit liability is adjusted by calculating the effective yield on the deposit to reflect actual payments to date and future expected payments.

We typically write larger customized reinsurance contracts that require significant interaction during the course of negotiations between the client, intermediaries and us. We take a lead underwriting position on many of our reinsurance contracts, meaning that we establish the pricing and terms and conditions of the reinsurance contract. In certain instances, we will follow terms and conditions established by our competitors if we believe the opportunity meets our return threshold and helps us balance our reinsurance portfolio.

Our property and casualty reinsurance operations generate positive cash flows, or float, which we track in managing our business. We believe that net investment income on float is a key part of our reinsurance strategy and an important consideration in evaluating the overall contribution of our property and casualty reinsurance operations to our consolidated results.

Despite challenging market conditions, we have grown our underwriting portfolio as a result of the strength of our relationships with reinsurance brokers and reinsurance buyers and our ability to offer customized solutions. Additionally, we have seen new opportunities as a result of our expansion in the U.S. through the formation of Third Point Re USA in February 2015. We write a small number of large contracts and, as a result, individual renewals, non-renewals, cancellations or new business can have a significant impact on premiums recognized in a period. In addition, our contracts are subject to significant judgment in the amount of premiums that we expect to recognize. Changes in premium estimates are recorded in the period they are determined and can significantly alter the expected value of a particular reinsurance contract. We also offer customized solutions to our clients, including reserve covers, which are considered retroactive reinsurance contracts, on which we will not have a regular renewal opportunity. Furthermore, we record gross premiums written and earned for reserve covers at the inception of the contract. Together these factors can impact the comparability of premiums written and earned in a period and trends from period to period and year over year.

See Note 22 to our audited consolidated financial statements included elsewhere in this Annual Report for a breakdown of contracts that individually contributed more than 10% of total gross premiums written.

We intend to manage our book of business by underwriting predominantly a mix of personal and commercial lines. We intend to increase our geographic spread over time; however, we expect that a majority of our reinsurance business will continue to be comprised of U.S. exposure. See Note 22 to our audited consolidated financial statements included elsewhere in this Annual Report for a breakdown of gross premiums written by domicile of ceding companies.

Many of our clients buy reinsurance from us for capital management purposes, primarily to increase their capacity to write insurance premium, maintain or improve their credit ratings from rating agencies, or to meet regulatory capital requirements. Our reinsurance contracts typically include structural and contractual features that limit the amount of risk assumed by the reinsurer, and therefore carry relatively lower expected margins than excess of loss reinsurance and other more volatile forms of reinsurance. During periods of less favorable market conditions, margins on reinsurance contracts written for capital management purposes for our clients typically remain relatively stable and are sufficient to support our business plan. We have historically focused on lines of business and forms of reinsurance that have demonstrated more stable return characteristics and have limited our underwriting of property catastrophe risk. As our capital position has strengthened and market conditions improve, we may expand the lines of business and forms of reinsurance on which we focus. This may include lines of business and forms of reinsurance with increased risk profiles where we believe the higher expected margins adequately compensate us for this increased risk.

The following table provides a breakdown by line and type of business of gross premiums written for the years ended December 31, 2017, 2016 and 2015:

|                                                | 2017              |                     | 2016              |                     | 2015              |                     |
|------------------------------------------------|-------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
|                                                | Amount            | Percentage of Total | Amount            | Percentage of Total | Amount            | Percentage of Total |
| (\$ in thousands)                              |                   |                     |                   |                     |                   |                     |
| <b>Property</b>                                | \$ 136,999        | 21.4%               | \$ 98,334         | 15.9%               | \$ 114,215        | 16.2%               |
| Workers' Compensation                          | 33,194            | 5.2%                | 56,069            | 9.1%                | 64,534            | 9.2%                |
| Auto                                           | 43,424            | 6.7%                | 91,626            | 14.8%               | 64,831            | 9.2%                |
| Other Casualty                                 | 193,141           | 30.1%               | 65,355            | 10.6%               | 106,145           | 15.1%               |
| <b>Casualty</b>                                | 269,759           | 42.0%               | 213,050           | 34.5%               | 235,510           | 33.5%               |
| Credit & Financial Lines                       | 34,324            | 5.4%                | 118,707           | 19.2%               | 62,923            | 9.0%                |
| Multi-line                                     | 63,665            | 9.9%                | 187,283           | 30.4%               | 181,747           | 25.9%               |
| Other Specialty                                | 27,522            | 4.3%                | —                 | —%                  | (1)               | —%                  |
| <b>Specialty</b>                               | 125,511           | 19.6%               | 305,990           | 49.6%               | 244,669           | 34.9%               |
| <b>Total prospective reinsurance contracts</b> | 532,269           | 83.0%               | 617,374           | 100.0%              | 594,394           | 84.6%               |
| Retroactive reinsurance contracts              | 109,351           | 17.0%               | —                 | —%                  | 108,064           | 15.4%               |
| <b>Total property and casualty reinsurance</b> | 641,620           | 100.0%              | 617,374           | 100.0%              | 702,458           | 100.0%              |
| <b>Catastrophe risk management</b>             | —                 | —%                  | —                 | —%                  | (44)              | —%                  |
|                                                | <u>\$ 641,620</u> | <u>100.0%</u>       | <u>\$ 617,374</u> | <u>100.0%</u>       | <u>\$ 702,414</u> | <u>100.0%</u>       |

### Investment Strategy

Our investment strategy distinguishes us from most other reinsurers, who typically concentrate their investment portfolios on long-only, investment grade, shorter-term, fixed income securities. As implemented by our investment manager, Third Point LLC, our investment strategy is intended to achieve superior risk-adjusted returns by deploying capital in both long and short investments with favorable risk/reward characteristics across select asset classes, sectors and geographies. Third Point LLC identifies investment opportunities via a bottom-up, value-oriented approach to single security analysis supplemented by a top-down view of portfolio and risk management. Third Point LLC seeks dislocations in certain areas of the capital markets or in the pricing of particular securities and supplements single security analysis with an approach to portfolio construction that includes sizing each investment based on upside/downside calculations, all with a view towards appropriately positioning and managing overall exposures. Dislocations in capital markets refer to any major movements in prices of the capital markets as a whole, certain segments of the market, or a specific security. If Third Point LLC has what it considers to be a differentiated view from the perceived market sentiment with respect to such movement, Third Point LLC may trade securities in our investment accounts based on that differentiated view. If the ultimate market reaction with respect to the event or movement ultimately proves to be closer to Third Point LLC's original viewpoint, we may have investment gains in our investment portfolio as a result of the shift in market sentiment. Through our investment manager, Third Point LLC, we make investments globally, in both developed and emerging markets, in all sectors, and in equity, credit, commodity, currency, options and other instruments.

Third Point LLC has historically favored event-driven situations, in which it believes that a catalyst, either intrinsic or extrinsic, will unlock value or alter the lens through which the greater market values a particular investment. Third Point LLC attempts to apply this event framework to each of its single security investments and this approach informs the timing and risk of each investment.

As the investment manager for Third Point Re BDA and Third Point Re USA, Third Point LLC has the contractual right to manage substantially all of our investable assets pursuant to investment management agreements that had an initial term that expired on December 22, 2016. In June 2016, Third Point Re, Third Point Re BDA, TPRUSA and Third Point Re USA entered into amended and restated Joint Venture and Investment Management Agreements with

Third Point LLC and Third Point Advisors LLC ("TP GP") for an additional five year term, effective on December 22, 2016 and expiring on December 22, 2021. Under these investment management agreements, Third Point LLC is required to follow our investment guidelines and to act in a manner that is fair and equitable in allocating investment opportunities to us. However, it is not otherwise restricted with respect to the nature or timing of making investments for our separate accounts. Our investment guidelines require Third Point LLC to manage our investment portfolio on a substantially equivalent basis to its main funds; but in any event to keep at least 60% of the investment portfolio in debt and equity securities of publicly traded companies and governments of the Organization of Economic Co-operation and Development ("OECD") high income countries, asset backed securities, cash, cash equivalents or precious metals; limit single position concentration to no more than 15% of the portfolio assets managed; and limit net exposure to no greater than 1.5 times portfolio assets managed for more than 10 trading days in any 30-trading day period. Net exposure represents the short exposure subtracted from the long exposure in a given category. We have the contractual right to withdraw funds from our managed accounts to pay claims and expenses as needed and to meet certain capital adequacy requirements.

### **Property and Casualty Reinsurance Segment Products**

Our underwriting team has extensive experience in underwriting many forms of property and casualty reinsurance products. In the current market for property and casualty reinsurance, which remains highly competitive despite the aggregate catastrophe losses in 2017, we expect that our focus will continue to be on property, casualty and specialty reinsurance quota share treaties, which may consist of broadly syndicated surplus relief quota share contracts, as well as more opportunistic business opportunities, where we are the sole or primary reinsurer. We also focus on loss portfolio transfers, aggregate stop loss covers and other forms of reserve covers, where we are able to leverage our investment capabilities. We believe there is less competition for the type of reserve covers on which we focus as a result of the limited willingness of traditional reinsurers, who have historically experienced lower investment returns on investable assets backing reserves, to pursue these products which rely heavily on investment return to produce compelling economics. Margins on this business are determined through bilateral negotiations and comparing the cost of the reserve cover to non-reinsurance solutions such as raising additional equity or debt capital. We may expand the lines of business and forms of reinsurance on which we focus to increase our risk-adjusted returns.

While we expect to establish a diversified portfolio, our allocation of risk will vary based on our perception of the opportunities available in each line of business. Geographically, we are focused on insurer and reinsurer clients located in the United Kingdom, Europe, Bermuda and the United States of America. The majority of our exposure emanates from the United Kingdom, Europe and the United States of America. Moreover, our focus on certain lines will fluctuate based upon market conditions and we may only offer or underwrite a limited range of lines in any given period. We intend to:

- target markets where capacity and alternatives are underserved or capacity constrained;
- employ strict underwriting discipline;
- select reinsurance opportunities with favorable economics over the life of the contract; and
- potentially offer lines and geographies that are not identified in this Form 10-K.

Through December 31, 2017, we wrote reinsurance contracts covering the following product lines:

#### ***Property***

This line of business primarily consists of homeowners' insurance coverage. Homeowners' insurance coverage combines various personal insurance protections, which can include losses occurring to one's home, their contents, loss of use (including additional living expenses), or loss of other personal possessions of the homeowner, as well as liability insurance for accidents that may happen at covered homes or at the hands of the homeowners. We primarily provide quota share reinsurance on a basis that limits the amount of catastrophic losses that can be recovered. There are also other loss sensitive features that can vary the cost of the reinsurance as results improve or deteriorate, reducing the potential volatility to us.



### ***Workers' Compensation***

Workers' compensation insurance provides wage replacement and medical benefits to employees injured in the course of employment in exchange for the mandatory relinquishment of the employee's right to sue the employer for negligence. While plans differ among jurisdictions, provisions can be made for payments in place of wages (functioning as a form of disability insurance), compensation for economic loss (past and future), reimbursement or payment of medical and like expenses (functioning as a form of health insurance), and benefits payable to dependents of workers killed during employment (functioning as a form of life reinsurance). General damages for pain and suffering and punitive damages for employer negligence are not generally available in workers' compensation plans. Our approach to workers' compensation is very selective and targets insurance companies that are very specialized within the workers' compensation line and geographically focused. While we offer both proportional and excess of loss reinsurance covering workers' compensation risks, we manage the volatility of this line of business by capping our per occurrence exposures.

### ***Auto***

Personal automobile insurance is purchased for individually owned or leased cars designed to provide the insured with financial protection against bodily injury or physical damage resulting from traffic accidents and against liability that could arise from such occurrences. In addition, automobile insurance may offer financial protection against theft or damage of the vehicle from incidents other than collisions. In the United States, each state has different rules and regulations in place for compulsory coverage and the specific terms of automobile insurance policies will vary from company to company. In the United States, we generally focus on providing proportional reinsurance to small, single state and regional carriers that specialize in minimum financial responsibility limits required by their respective states. This business is often referred to as "non-standard" automobile business and was historically underserved by standard markets. More recently, however, standard companies have expanded their appetite for such business and it is written by a broad range of carriers. Outside of the United States, we also focus on the "non-standard" personal automobile segment in the United Kingdom.

Like personal automobile insurance, commercial automobile insurance provides the insured with financial protection against bodily injury or physical damage to the automobile resulting from traffic accidents and against liability that could arise from such occurrences. It is purchased by businesses and provides financial protection, for the insured business' vehicles and drivers. While we have written de minimis amounts of commercial automobile insurance to date, we have seen an increase in potential opportunities in the United States covering both retrospective and prospective liabilities in this sector due to market dislocation.

### ***Other Casualty***

Our Other Casualty line of business is comprised of casualty contracts exposed to more than one type of casualty risk. Typically, Other Casualty includes the following lines of business:

#### ***Professional Liability***

Professional liability is a form of liability insurance that helps protect professional advisors and service-providing individuals and companies from bearing the full cost of defending against a negligence claim made by a client and damages awarded in a civil lawsuit. The coverage focuses on alleged failure to perform on the part of, financial loss caused by, and error or omission in the service provided by the policyholder. These are potential causes for legal action that would not be covered by a basic general liability insurance policy, which addresses more direct forms of harm. The broad category of professional liability insurance includes the specific products of errors and omissions ("E&O"), directors and officers coverage ("D&O"), as well as several other products such as transactional liability insurance.

E&O coverage protects the insured against liability for committing inadequate work or negligent actions in performance of their professional duties. Generally, such policies are designed to cover financial losses rather than liability for bodily injury and property damage. E&O coverage was historically purchased by individuals with professional designations such as doctors, lawyers, architects, and engineers, but more recently other professions also purchase E&O coverage.

D&O coverage insures the legal liability of the individual directors and officers of the insured company for certain errors and omissions committed by them. In certain circumstances in which the insured company is not legally permitted

to indemnify its directors or officers for a covered loss, the policy's D&O coverage provides for insurance payments to be made directly to the directors or officers. Conversely, if the insured company indemnifies its directors or officers for their loss, the policy's D&O coverage reimburses the insured company for those indemnification payments. In this way, the coverage insures against the insured company's own "indemnification risk."

There are two types of coverages available in professional liability insurance: occurrence and claims-made. An occurrence policy protects the insured from any covered incident that "occurs" during the policy period, regardless of when a claim is filed. An occurrence policy protects the insured from claims that are made even after the policy has been canceled, so long as the incident occurred during the period in which coverage was in effect. Claims-made policies provide coverage for claims only when a claim is reported during the period the policy is actually in force. Claims-made policies provide coverage so long as the insured continues to pay premiums for the initial policy and any subsequent renewals. A claims-made policy will cover claims after the coverage period only if the insured purchases extended reporting period or "tail" coverage.

Professional liability coverage is usually (but not always) written under a claims-made coverage form, and includes a duty to defend a lawsuit seeking damages covered by the policy.

#### *Transactional Liability*

Transactional liability coverage provides a solution for lowering risk for specific merger and acquisition transactions. The most common type of transactional liability insurance is representations and warranties liability insurance. Our exposure to this line is primarily from proportional reinsurance contracts with market professionals in this segment.

#### *General Liability*

General liability insurance policies are issued to business organizations to protect them against liability claims for bodily injury and property damage arising out of premises, operations, products, and completed operations. The premises and operations portion of the coverage includes liability for injury or damage arising out of the insured's premises or out of the insured's business operations while such operations are in progress. The products and completed operations portion of the coverage includes liability arising out of the insured's products or business operations conducted away from the insured's premises once those operations have been completed or abandoned. The standard general liability policy also covers advertising and personal injury liability. These coverages include a duty to defend a lawsuit seeking damages covered by the policy.

#### *Credit & Financial Lines*

Credit & Financial Lines primarily consists of mortgage insurance policies. Mortgage insurance is an insurance policy that compensates lenders or investors for losses due to the default of a mortgage loan. Mortgage insurance can refer to private mortgage insurance ("PMI"), mortgage life insurance or mortgage title insurance. We focus on PMI, which is normally required by lenders when a borrower's down payment or equity is less than 20% of the loan value. Not all lenders will require PMI but those that follow the Fannie Mae and Freddie Mac guidelines for home loan approval require PMI. As well as reinsuring the private mortgage insurers, we assume exposure to the credit risk sharing transactions from Fannie Mae and Freddie Mac through a broad financial lines retrocessional deal. In addition to mortgage insurance, policies classified as Credit & Financial Lines may include political risk, trade credit, surety, financial guarantee, residual value insurance and title insurance.

#### *Other Specialty*

The principal lines of business included in our other specialty line is comprised of:

*Marine* - covers damage to or losses of marine vessels and cargo, third-party liability for marine accidents and physical loss and liability from principally offshore energy properties. Coverage includes marine liability cover mainly related to the liabilities of ship-owners and port operators, including reinsurance of Protection and Indemnity Clubs ("P&I Clubs").

*Travel insurance* - covers medical expenses, trip cancellation costs, lost luggage, flight accident and other losses incurred while traveling, either internationally or domestically.

*Extended warranty insurance* - compensates individuals or businesses for correction or repair necessary as a result of mechanical or electrical breakdown. Our reinsurance contracts cover motor vehicles, vans, trucks, construction equipment, consumer electronics, and agricultural equipment, and the coverage varies according to the product, the age and the usage. We currently write a limited amount of this coverage on a stand-alone basis and most of our exposure to this line of business emanates from multi-line contracts. The insurance is offered on a multi-year basis, generally with a maximum period of three years on risk, and can cover either new units after a period of warranty offered by the manufacturer or used units once the manufacturer's warranty has expired. To date, all of the extended warranty insurance business we have written excludes manufacturer defect and product recall.

### ***Multi-line***

Multi-line reinsurance is reinsurance of an underlying portfolio of several different types of insurance risks. We focus on multi-line reinsurance opportunities where we have expertise in the underlying lines of business or where the terms and conditions of the reinsurance contract minimize the volatility of the more difficult to analyze classes of business in the portfolio. Contracts that cover more than one line of business will be designated as multi-line even if a portion of the underlying business is covered by one of the lines of business listed above.

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

Retroactive reinsurance contracts consist of loss portfolio transfers, adverse development covers and other forms of reserve reinsurance providing indemnification of loss and loss adjustment expense reserves with respect to past loss events. These contracts can include one or multiple lines of business and cover the potential for changes in estimates of loss and loss adjustment expense reserves related to loss events that have occurred in the past.

### **Marketing**

The majority of our business is sourced through reinsurance brokers. Broker distribution channels provide us with access to an efficient, variable cost, global distribution system without the significant time and expense that would be incurred in creating a wholly-owned distribution network. We believe that our financial strength rating, well known and respected management team, and responsive client service enhance our working relationships with clients and brokers.

Our objective is to build long-term relationships with senior individuals at reinsurance brokers and with our clients. We meet frequently with brokers, senior representatives of existing clients and prospective clients, and encourage clients to visit our executive offices in order to help distinguish us and to develop mutually beneficial understandings of our respective businesses. As evidenced by rates of submission flow, open dialogue, and successful closing of targeted accounts, we believe we have successfully leveraged the underwriting experience and relationships of our management team. Reinsurance brokers receive a brokerage commission that is usually a percentage of gross premiums written. We seek to become the first choice of brokers and clients by providing:

- creative solutions that address the specific business needs of our clients;
- rapid and substantive responses to structuring and pricing quote requests;
- financial security; and
- clear indication of risks we will and will not underwrite.

See Note 22 to our audited consolidated financial statements included elsewhere in this Annual Report for a breakdown of our premiums written by source that individually contributed more than 10% of total gross premiums written.

We believe that the number of brokers with whom we do business will continue to expand over time, and by maintaining close working relationships with brokers, we are able to increase our chances of successfully growing and accessing a broader range of potential clients.

### **Underwriting**

We have established a team of senior underwriters and actuaries to develop and manage our reinsurance business. We believe that their experience, industry presence and long-standing relationships will allow us to tailor our portfolio to specific market segments. Our approach to underwriting will allow us to deploy our capital in a variety of lines of

business and to capitalize on opportunities that we believe offer favorable returns on equity over the long term. Our underwriters and actuaries have expertise in a number of lines of business and we will also look to outside consultants to help us with niche areas of expertise when we deem it appropriate. We also consider investment income in our underwriting and pricing of our business.

We generally apply the following underwriting management principles:

### ***Team Approach***

Each submission is assigned to an underwriter. If the program meets our underwriting criteria, the underwriter and pricing actuary evaluate the opportunity, determine the optimal structure, and price the deal. When capital is committed to any transaction, the underwriting team creates a deal analysis memorandum that highlights the key components of the proposed transaction and presents the proposed transaction to a senior group of staff including our senior executives and representatives of the underwriting, actuarial and finance teams. This group must agree that the transaction meets or exceeds our profitability expectations and requirements before we submit a binding proposal.

### ***Actuarial Pricing***

We have developed proprietary actuarial models and also use several commercially available tools to assist in pricing our business. Our analysis considers the data and information provided by the potential cedent as well as relevant industry data, where appropriate. We use this cedent specific and industry data to develop our own point estimate of the expected losses under each potential contract. We also use a stochastic model to simulate a distribution of potential loss outcomes and the impact of any contractual features that may exist such as sliding scale ceding commissions or profit commissions.

Two of the key metrics that we consider as a result of this process are the expected composite and combined ratios on a particular transaction. We also consider the projected underwriting and economic results at various confidence levels with a specific focus on the likelihood and magnitude of adverse outcomes. As part of this process, we also specifically review each transaction to determine if there is sufficient risk transfer to qualify for reinsurance accounting. The results of this pricing process are shared with the underwriter on a contract, and if a deal is bound, summary exhibits are attached to a memo summarizing the actuarial pricing analysis that was performed.

### ***Act as Lead Underwriter***

Typically, one or two reinsurers will act as the lead or co-lead parties in developing and negotiating treaty pricing, terms and conditions of reinsurance contracts. We act as the lead underwriter for the majority of the premium that we underwrite. We believe that lead underwriting is a critically important factor in achieving long-term success, as lead underwriters have greater control of overall economics of their programs. In addition, we believe that reinsurers that lead contracts are generally solicited for a broader range of business and have greater access to attractive risks.

### ***Alignment of Interests***

We seek to ensure that every contract we underwrite aligns our interests with our client's interest. Specifically, we may seek to:

- require our clients to maintain a meaningful risk position in their business;
- pay our clients a commission based upon their actual expenses and offer an additional commission as an incentive based upon profitability;
- include deficit carry-forward provisions in our multi-year contracts that allows us to potentially offset underwriting losses from one year to the next;
- charge the client a premium for reinstatement of the amount of reinsurance coverage to the full amount reduced as a result of a reinsurance loss payment, which we refer to as a reinstatement premium;
- require specific levels of rate increases on the underlying insurance policies; and
- for contracts on which we offer an interest credit on funds we hold, credit interest income on actual cash received into a notional experience account whereby the experience account is credited to the ceding company at the maturity of the contract if underwriting results are realized as initially expected.

We believe these tools help us align our risk with the risk of the client and provide incentive to clients to manage our mutual interests. We also believe that aligning our interests with our client's interests promotes profitability, accurate reporting of information, timely settling and management of claims, and limits the potential for disputes. Adjustments to profit commissions and other participating features are recorded in our financial statements based on our estimate of losses and the contractual provisions of the reinsurance contract.

### **Detailed Underwriting Diligence**

We employ selective underwriting criteria in the contracts we choose to underwrite and spend a significant amount of time with our clients and brokers to understand the risks and appropriately structure the contracts. We usually obtain significant amounts of data from our clients to conduct a thorough actuarial modeling analysis. As part of our pricing and underwriting process, we assess among other factors:

- the client's and industry historical loss data and current market conditions;
- the business purpose served by a proposed contract;
- the client's pricing and underwriting strategies;
- the expected duration for claims to fully develop;
- the geographic areas in which the client is doing business and its market share;
- the reputation and financial strength of the client;
- the reputation and expertise of the broker;
- proposed contract terms and conditions; and
- reports provided by independent industry specialists.

### **Retrocessional Coverage**

Retrocessional coverage consists of reinsurance purchased to cover a portion of the risks that we reinsure on behalf of our clients. We purchased a small amount of retrocessional coverage in 2017 on specific accounts, and we may continue to do so in the future. From time to time, we consider purchases of retrocessional coverage for one or more of the following reasons: to specifically reduce our property catastrophe exposure in certain reinsurance contracts that we write, to reduce our net liability on individual risks, to obtain additional underwriting capacity and to balance our underwriting portfolio. Additionally, retrocession can be used as a mechanism to share the risks and rewards of business written and therefore can be used as a tool to align our interests with those of our counterparties.

### **Claims Management**

Our claims management process begins upon receipt of periodic contract reports from brokers or clients. These statements are reviewed on an individual basis, evaluated against our expectations and entered in our management system for portfolio analysis and reporting purposes. In addition to analyzing report statements and results, claims audits are performed on specific contracts based on results and management direction to ensure the clients are reporting and reserving their claims accurately and appropriately.

### **Reserves**

On a quarterly basis, our actuaries produce an actuarial central estimate of the gross and net loss reserves for all contracts bound as of the evaluation date. The reserves are calculated on an undiscounted basis with regards to future investment income. The projections also include estimates of loss-sensitive contingent terms such as additional premium features, profit commissions and sliding scale ceding commissions. All calculations are done on a contract-by-contract basis and reflect the most recent premium and loss information provided by our cedents.

In estimating our loss and loss adjustment reserves, it is necessary to project future loss and loss adjustment expense payments. Actual future loss and loss adjustment expenses will not develop exactly as projected and may, in fact, significantly vary from the projections. Further, the projections make no provision for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in our or the cedent's historical database or which are not yet quantifiable.

See Note 8 to our audited consolidated financial statements included elsewhere in this Annual Report for additional information and details on our loss reserve development.

### **Collateral Arrangements and Letter of Credit Facilities**

Neither Third Point Re BDA nor Third Point Re USA is licensed or admitted as an insurer in any jurisdiction other than Bermuda. Many jurisdictions, such as the United States, do not permit clients to take credit for reinsurance on their statutory financial statements if such reinsurance is obtained from unlicensed or non-admitted insurers without appropriate collateral or, in some states, unless they have investment grade financial strength ratings from two recognized rating agencies. Furthermore, certain clients may require that we post collateral in order to meet their counterparty security requirements. As a result, we anticipate that all of our U.S. clients and a portion of our non-U.S. clients will require us to provide collateral for the contracts we bind with them. We expect this collateral to take the form of funds withheld, trust arrangements or letters of credit. As of December 31, 2017, we had in place letter of credit facilities for an aggregate amount of \$425.0 million and have issued letters of credit totaling \$250.5 million in favor of clients. The failure to maintain, replace or increase our letter of credit facilities on commercially acceptable terms may significantly and negatively affect our ability to implement our business strategy. See “Risk Factors - Risks Relating to Our Business - Our failure to obtain sufficient letter of credit facilities or to increase our letter of credit capacity on commercially acceptable terms as we grow could significantly and negatively affect our ability to implement our business strategy.”

In addition, we have \$617.1 million of restricted cash and investments held in trust accounts to secure obligations under certain reinsurance contracts.

### **Competition**

The reinsurance industry is highly competitive. We compete with major reinsurers, most of which are well established, have a significant operating history and stronger financial strength ratings and have developed long-standing client relationships.

Although we seek to provide coverage where capacity and alternatives are limited, we directly compete with larger companies due to the breadth of their coverage across the property and casualty market in substantially all lines of business. We also compete with smaller companies and other niche reinsurers. We believe that our unique approach to underwriting and extensive relationships allow us to be successful in underwriting transactions against more established competitors.

### **Risk Management**

We have developed a comprehensive risk management strategy that is governed by an articulated vision of risk appetite and control that is conveyed throughout the organization and measured in a transparent and consistent manner. Our risk management strategy, metrics and progress are summarized in a report that is presented to the Board of Directors on a quarterly basis. Our internal capital model incorporates statistics from the pricing, reserving and investment processes to produce an estimate of the amount of capital used at set points in time (e.g., each quarter-end) as well as the overall variability in the prospective financial results. We work closely with the risk management personnel of Third Point LLC, our investment manager, to measure and report the variability of results from our investment portfolio. We also monitor the contractual exposure to catastrophic losses as aggregated across all bound reinsurance contracts.

### **Ratings**

Each of our reinsurance subsidiaries has an A- (Excellent) financial strength rating with a stable outlook from A.M. Best, which is the fourth highest of 15 ratings. We believe that a strong rating is a critical factor in the marketing of reinsurance products to clients and brokers. This rating reflects the rating agency’s opinion of our financial strength, operating performance and ability to meet obligations. It is not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our common shares.

### **Joint Ventures and Investment Management Agreements**

On December 22, 2011, we entered into an investment management agreement with Third Point LLC, Third Point Re BDA, and TP GP (Third Point Re BDA and TP GP, together with any other party admitted in the future as a participant, the “Participants” and each a “Participant”) pursuant to which the parties created a joint venture (as the context requires, the “Joint Venture”) whereby Third Point LLC manages the assets of Third Point Re BDA and TP GP as well as any of our subsidiaries’ assets, if any, in accordance with the terms and subject to the conditions set forth in the investment management agreement, except as described below.

On January 28, 2015, we entered into another investment management agreement with Third Point LLC, Third Point Re USA and TP GP pursuant to which the parties created a separate managed account (as the context requires, the “Joint Venture”) whereby Third Point LLC manages the assets of Third Point Re USA and TP GP under substantially the same terms and conditions as our existing investment management agreement for Third Point Re BDA.

In June, 2016, Third Point Re, Third Point Re BDA, TPRUSA and Third Point Re USA entered into amended and restated Joint Venture and Investment Management Agreements (the “Agreements” and each an “Agreement”) with Third Point LLC and TP GP for an additional five-year term, effective on December 22, 2016, the end of the term of the previous agreements.

#### ***Term***

Each Agreement has a term ending on December 22, 2021, subject to automatic renewal for additional successive three-year terms unless a party notifies the other parties in writing on or before the June 22nd prior to the end of a term that it wishes to terminate such Agreement at the end of such term.

#### ***Performance Allocation***

Under each Agreement, the Joint Venture has established one or more capital accounts to which capital contributions, withdrawals, net profit and net loss will be allocated in respect of each Participant. At the end of each fiscal year, the performance allocation (equal to 20% of the net profit allocable to the capital account of each Participant) will be reallocated to the capital account of TP GP from the capital account of each other Participant, provided that a performance allocation will not be made with respect to such capital account until such capital account has recouped the amount of any unrecovered net capital loss in its loss recovery account (as described below). If a Participant withdraws all or a portion of its capital account other than at the end of a fiscal year, the performance allocation accrued and attributable to the portion withdrawn will be debited against such Participant’s capital account and credited to TP GP’s capital account at the time of withdrawal.

Under each Agreement, Third Point LLC is required to maintain a loss recovery account in respect of each Participant. Thereafter, for any fiscal year, the loss recovery account balance shall be the sum of all prior year net loss amounts allocated to the Participant and not subsequently offset by prior year net profit amounts allocated to such Participant, provided that the loss recovery account balance shall be reduced proportionately to reflect any withdrawals made by such Participant. TP GP may waive or reduce the performance allocation, in its sole discretion. Third Point LLC and TP GP may elect, at the beginning of each fiscal year, to restructure the performance allocation as a performance fee to Third Point LLC with the same terms as the performance allocation.

#### ***Management Fee***

Pursuant to the amended and restated Agreements, Third Point LLC is entitled to receive a monthly payment in advance by each Participant (other than TP GP) that is equal to (i) 0.125% (1.5% annualized) of the capital account of such Participant (before accounting for any accrual of the performance allocation described in such Agreement). Pursuant to initial agreements, up to December 22, 2016, the date the initial agreements expired, Third Point LLC was entitled to receive a monthly payment in advance by each Participant (other than TP GP) that was equal to (i) 0.1667% (2.0% annualized) of the capital account of such Participant (before accounting for any accrual of the performance allocation described in such Agreement) minus (ii) the aggregate amount of Founders payments paid for such month pursuant to the Founders Agreement, in each case pro-rated for intra-month withdrawals or contributions.

### ***Most Favored Nation***

In the event that Third Point LLC agrees terms with any existing or future investor wherein the asset-based fee or performance based compensation is equal to or more favorable to such investor, Third Point Re BDA and Third Point Re USA, will have the right to receive the benefit of such terms (provided it agrees to be bound by all the terms and conditions associated with such equal or more favorable terms).

### ***Investment Guidelines***

Under each Agreement, Third Point LLC is required to adhere to the following investment guidelines:

- Composition of Investments: At least 60% of the investment portfolio will be held in debt or equity securities (including swaps) of publicly traded companies (or their subsidiaries) and governments of the OECD high income countries, asset-backed securities, cash, cash equivalents and gold and other precious metals. Except with the prior written consent of the Investment and Finance Committee, none of the assets in the investment portfolio will be held in illiquid investments traditionally considered “venture capital” or private equity investments. In addition, no investments in third party managed funds or other investment vehicles will be made without the consent of the Investment and Finance Committee.
- Concentration of Investments: Other than cash, cash equivalents and United States government obligations, no single investment in the investment portfolio will constitute more than 15% of the portfolio.
- Liquidity: Assets will be invested in such fashion that Third Point Re BDA and Third Point Re USA have a reasonable expectation that it can meet any of its liabilities as they become due. We review the liquidity of the portfolio on a periodic basis.
- Net Exposure Limits: The net position (long positions less short positions) may not exceed 1.5 times net asset value for more than 10 trading days in any 30-trading day period.

Upon written request of Third Point LLC, our senior management may, in exigent circumstances, permit a variation from these guidelines.

### ***Termination***

We may terminate either Agreement upon the death, long-term disability or retirement of Daniel S. Loeb, or the occurrence of other circumstances in which Mr. Loeb is no longer directing the investment program of Third Point LLC or actively involved in the day-to-day management of Third Point LLC.

We may withdraw as participants under the Agreements prior to the expiration of the Agreements’ term at any time following the occurrence of a “Cause Event”, which is defined as:

- a material violation of applicable law relating to Third Point LLC’s investment related business;
- Third Point LLC’s fraud, gross negligence, willful misconduct or reckless disregard of its obligations under the Agreement;
- a material breach by Third Point LLC of our investment guidelines or any other material breach of the Agreement, which, in either case, if such breach is reasonably capable of being cured, is not cured within a 15-day period;
- a conviction or, a plea of guilty or nolo contendere to a felony or a crime affecting the investment related business of Third Point LLC by certain senior officers of Third Point LLC;
- any act of fraud, material misappropriation, material dishonesty, embezzlement, or similar conduct relating to Third Point LLC’s investment related business; or
- a formal administrative or other legal proceeding before the SEC, the CFTC, the FINRA, or any other U.S. or non-U.S. regulatory or self-regulatory organization against Third Point LLC; or certain key personnel which would likely have a material adverse effect on us.

In addition, we may withdraw as a participant under the investment management agreements prior to the expiration of their term if the net investment performance of Third Point LLC has (a) (i) incurred a loss in two successive calendar years and (ii) underperformed the S&P 500 Index by at least 10 percentage points for such two successive calendar



years, taken as a whole, or (b) (i) incurred a cumulative loss of 10% or more during any 24-month period and (ii) underperformed the S&P 500 Index by at least 15 percentage points for such 24-month period. We may not withdraw or terminate the Agreements on the basis of performance other than as provided above.

The following table sets forth management fees and performance fees incurred for the years ended December 31, 2017, 2016 and 2015:

|                                                                        | 2017              | 2016             | 2015             |
|------------------------------------------------------------------------|-------------------|------------------|------------------|
|                                                                        | (\$ in thousands) |                  |                  |
| Management fees - Third Point LLC                                      | \$ 36,733         | \$ 7,110         | \$ 6,362         |
| Management fees - Founders <sup>(1)</sup>                              | —                 | 35,321           | 36,053           |
| Performance fees - Third Point Advisors LLC (before loss carryforward) | 93,978            | 17,276           | 7,061            |
| Performance fees - loss carryforward                                   | —                 | —                | (6,199)          |
|                                                                        | <u>\$ 130,711</u> | <u>\$ 59,707</u> | <u>\$ 43,277</u> |

(1) KEP TP Bermuda Ltd., KIA TP Bermuda Ltd., Pine Brook LVR, L.P., P RE Opportunities Ltd. and Dowling Capital Partners I, L.P., collectively the “Founders”, received a share of the management fees in proportion to their initial investments in Third Point Re until December 22, 2016.

## Investments

### *Investment Strategy*

As our investment manager, Third Point LLC has the contractual right to manage substantially all of our investable assets until December 22, 2021, subject to certain extension and termination rights described above, and is required to follow our investment guidelines and to act in a manner that is fair and equitable in allocating investment opportunities to us. However, it is not otherwise restricted with respect to the nature or timing of making investments for our accounts. We have the contractual right to withdraw funds from our managed accounts to pay claims and expenses as needed.

## Investment Portfolio

The following tables present the total long, short and net exposure of our consolidated investment portfolio as managed by Third Point LLC, as of December 31, 2017 and 2016 by strategy and geography:

|                                          | 2017        |              |             | 2016        |              |             |
|------------------------------------------|-------------|--------------|-------------|-------------|--------------|-------------|
|                                          | Long        | Short        | Net         | Long        | Short        | Net         |
| <b>Equity</b>                            |             |              |             |             |              |             |
| Consumer                                 | 18%         | (5)%         | 13 %        | 7%          | — %          | 7 %         |
| Energy & Utility                         | 6%          | (2)%         | 4 %         | 2%          | — %          | 2 %         |
| Financial                                | 15%         | (3)%         | 12 %        | 10%         | (1)%         | 9 %         |
| Healthcare                               | 14%         | (2)%         | 12 %        | 16%         | (1)%         | 15 %        |
| Industries & Commodities                 | 28%         | (4)%         | 24 %        | 16%         | (1)%         | 15 %        |
| Technology, Media and Telecommunications | 14%         | — %          | 14 %        | 10%         | (3)%         | 7 %         |
| Market Hedges                            | 3%          | (9)%         | (6)%        | 2%          | — %          | 2 %         |
| <b>Total Equity</b>                      | <b>98%</b>  | <b>(25)%</b> | <b>73 %</b> | <b>63%</b>  | <b>(6)%</b>  | <b>57 %</b> |
| <b>Credit</b>                            |             |              |             |             |              |             |
| Distressed                               | 2%          | — %          | 2 %         | 3%          | — %          | 3 %         |
| Performing                               | 2%          | (1)%         | 1 %         | 10%         | (4)%         | 6 %         |
| Government                               | 2%          | — %          | 2 %         | 6%          | — %          | 6 %         |
| Asset Backed Securities <sup>(1)</sup>   | 10%         | (3)%         | 7 %         | 12%         | (3)%         | 9 %         |
| <b>Total Credit</b>                      | <b>16%</b>  | <b>(4)%</b>  | <b>12 %</b> | <b>31%</b>  | <b>(7)%</b>  | <b>24 %</b> |
| <b>Other</b>                             |             |              |             |             |              |             |
| Risk Arbitrage                           | 7%          | (2)%         | 5 %         | 9%          | — %          | 9 %         |
| Macro                                    | —%          | — %          | — %         | 1%          | (17)%        | (16)%       |
| Private <sup>(2)</sup>                   | 3%          | — %          | 3 %         | 3%          | — %          | 3 %         |
| <b>Total Other</b>                       | <b>10%</b>  | <b>(2)%</b>  | <b>8 %</b>  | <b>13%</b>  | <b>(17)%</b> | <b>(4)%</b> |
|                                          | <b>124%</b> | <b>(31)%</b> | <b>93 %</b> | <b>107%</b> | <b>(30)%</b> | <b>77 %</b> |

(1) Includes residential mortgage-backed securities, commercial mortgage-backed securities and related indices.

(2) Includes securities approved for purchase by the Investment and Finance Committee in accordance with the investment guidelines.

|                                | 2017        |              |            | 2016        |              |             |
|--------------------------------|-------------|--------------|------------|-------------|--------------|-------------|
|                                | Long        | Short        | Net        | Long        | Short        | Net         |
| Americas                       | 93%         | (29)%        | 64%        | 98%         | (10)%        | 88 %        |
| Europe, Middle East and Africa | 7%          | — %          | 7%         | 6%          | (11)%        | (5)%        |
| Asia                           | 24%         | (2)%         | 22%        | 3%          | (9)%         | (6)%        |
|                                | <b>124%</b> | <b>(31)%</b> | <b>93%</b> | <b>107%</b> | <b>(30)%</b> | <b>77 %</b> |

In managing our investment portfolio, Third Point LLC assigns every investment position a sector, strategy and geographic category. The dollar exposure of each position under each category is aggregated and the exposure percentages listed in the exposure table represent the aggregate market exposure of a given category against the total net asset value of the consolidated account. Long and short exposure percentages represent the aggregate relative value of all long and short positions in a given category, respectively. Net exposure represents the short exposure subtracted from the long exposure in a given category. Third Point LLC reports the composition of our total managed portfolio on a market exposure basis, which it believes is the appropriate manner in which to assess the exposure and profile of investments and is the way in which it manages the portfolio. Under this methodology, the exposure for equity swaps and futures contracts are reported at their full notional amount. The notional amount of any derivative contract is the underlying value upon which payment obligations are computed. For an equity total return swap, for example, the notional amount is the number of shares underlying the swap multiplied by the market price of those shares. Options are reported at their delta adjusted basis. The delta of an option is the sensitivity of the option price to the underlying

stock price. The delta adjusted basis is the number of shares underlying the option multiplied by the delta and the underlying stock price. Credit derivatives are reported in accordance with their equivalent underlying security exposure. Cash and cash equivalents are excluded from exposure calculations.

### **Investment Returns**

The investment return is based on the total consolidated assets in Third Point Re BDA's and Third Point Re USA's investment accounts managed by Third Point LLC, which includes the majority of our equity capital and float generated by our reinsurance operations. Investment returns for the years ended December 31, 2017, 2016 and 2015, net of all fees and expenses, is as follows:<sup>(1)</sup>

|                                                                 | 2017  |        |       | 2016 |        |        | 2015   |        |        |
|-----------------------------------------------------------------|-------|--------|-------|------|--------|--------|--------|--------|--------|
|                                                                 | Long  | Short  | Net   | Long | Short  | Net    | Long   | Short  | Net    |
| Equity                                                          | 21.5% | (4.6)% | 16.9% | 1.5% | (2.9)% | (1.4)% | (2.5)% | (0.8)% | (3.3)% |
| Credit                                                          | 0.7%  | (0.6)% | 0.1%  | 6.4% | (0.4)% | 6.0%   | 1.5%   | 0.5%   | 2.0%   |
| Other                                                           | 1.8%  | (1.1)% | 0.7%  | 0.5% | (0.9)% | (0.4)% | (1.0)% | 0.7%   | (0.3)% |
| Net investment return on investments managed by Third Point LLC | 24.0% | (6.3)% | 17.7% | 8.4% | (4.2)% | 4.2%   | (2.0)% | 0.4%   | (1.6)% |
| S&P 500 Total Return Index                                      |       |        | 21.8% |      |        | 12.0%  |        |        | 1.4%   |

(1) Past performance is not necessarily indicative of future results.

See Note 12 to our audited consolidated financial statements included elsewhere in this Annual Report for detailed information on net investment income (loss). 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.

Although our investment accounts have similar objectives and investment portfolio compositions to other funds managed by Third Point LLC, we can experience differences in returns when comparing our investment returns to the returns of other Third Point LLC managed funds for several reasons including:

- Our investment accounts include collateral accounts securing letters of credit and reinsurance trust accounts securing various reinsurance contract obligations. These collateral assets include cash and cash equivalents and government securities and may be invested in foreign currencies other than U.S. dollar. The unrealized gains and losses on these investments, net investment income from the interest earned as well as foreign exchange gains and losses on these assets will contribute to differences in our returns compared to other funds that Third Point LLC manages.
- Our investment guidelines contain restrictions on our ability to invest in private securities as compared to the investment guidelines of other funds that Third Point LLC manages. Our ability to invest in private securities is subject to approval by the Investment and Finance Committee of the Board of Directors. As a result, we may have different exposures to certain private investments compared to other funds that Third Point LLC manages.
- We invest in certain securities whereby Third Point LLC has a board position in the company or may otherwise be restricted from trading in the particular security that can prohibit Third Point LLC from re-balancing our investment accounts, which may result in different returns in our investment accounts compared to other funds that Third Point LLC manages.

## **Investment Regulatory Concerns and Restrictions**

Third Point LLC is involved regularly in trading activities that involve a broad number of U.S. and foreign securities law regimes, including laws governing trading on inside information, market manipulation and a broad number of technical trading requirements that involve fundamental market regulation policies. Violation of such laws could result in severe restrictions on Third Point LLC's activities and, indirectly, damage to our investment portfolio and/or reputation as each investment management agreement has limited termination provisions.

Third Point LLC's failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or other sanctions. The regulations that Third Point LLC is subject to are designed primarily to ensure the integrity of the financial markets. They are not designed to protect us or, indirectly, you. Even if a sanction imposed against Third Point LLC or one of its personnel by a regulator was for a small monetary amount, the adverse publicity related to such sanction against Third Point LLC by regulators could harm its reputation and, possibly, ours.

In recent years, there has been debate in both the U.S. and foreign governments about new rules or regulations to be applicable to alternative investment advisers, like Third Point LLC.

In August 2007, the SEC adopted a new rule intended to clarify the SEC's authority to bring enforcement actions against investment advisers for fraud against investors and prospective investors in their funds (as opposed to fraud against the funds themselves). Although we do not believe the SEC's rule has directly affected us, Third Point LLC and, accordingly, our investment strategy, may be adversely affected if new or revised legislation or regulations are enacted or by changes to existing rules and regulations of U.S. or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets.

It is possible that increased regulation of alternative investment advisers could adversely affect Third Point LLC's ability to manage our investment portfolio or its ability to manage our portfolio pursuant to our existing investment strategy, which could cause us to alter our existing investment strategy and could significantly and negatively affect our business and results of operations. In addition, adverse publicity regarding alternative investment strategies generally, or Third Point LLC or its affiliates specifically, could negatively affect our business reputation and attractiveness as a counterparty to brokers and clients.

## **Other Trading Restrictions**

Third Point LLC may from time to time place it or its affiliates' representatives on creditors committees or boards of certain companies in which our portfolio is invested. While such representation may enable Third Point LLC to enhance the value of our investments, it may place trading restrictions on certain securities included in our investment portfolio.

## **Regulation**

Third Point Re BDA and Third Point Re USA are licensed in Bermuda to write reinsurance and are not admitted to do business in any jurisdiction in the United States or in any country other than Bermuda. The insurance laws of each state of the United States and of many foreign countries regulate the sale of insurance and reinsurance within their jurisdictions by alien insurers and reinsurers, such as Third Point Re BDA and Third Point Re USA.

Third Point Re BDA and Third Point Re USA currently intend to conduct their business so as not to be subject to the licensing requirements of insurance regulators in the United States or elsewhere (other than Bermuda). Many aspects of the activities of Third Point Re BDA and Third Point Re USA are similar to those employed by other non-admitted reinsurers that provide reinsurance to U.S. and other ceding companies. There can be no assurance, however, that insurance regulators in the United States or elsewhere will not review the activities of Third Point Re BDA or Third Point Re USA and claim that Third Point Re BDA or Third Point Re USA is subject to such jurisdiction's licensing requirements.

### *The Insurance Act of 1978*

The Insurance Act of 1978, as amended, and related regulations of Bermuda (the "Insurance Act"), which regulates the insurance business of Third Point Re BDA and Third Point Re USA, provides that no person shall carry on any insurance business in or from within Bermuda unless registered as an insurer under the Insurance Act by the Bermuda Monetary

Authority (“BMA”). Third Point Re BDA and Third Point Re USA are registered as Class 4 insurers under the Insurance Act. Class 4 insurers are required to maintain fully paid-up share capital of \$1,000,000. Certain significant aspects of the Bermuda insurance regulatory framework are set forth below.

#### *Annual Financial Statements*

As Class 4 insurers, Third Point Re BDA and Third Point Re USA must prepare and submit, on an annual basis, both audited U.S. GAAP and statutory financial statements as prescribed by the Insurance Act.

#### *Declaration of Compliance*

Third Point Re BDA and Third Point Re USA, at the time of filing their statutory financial statements, will also be required to deliver to the BMA a declaration of compliance, in such form and with such content as may be prescribed by the BMA.

#### *Annual Statutory Financial Return and Annual Capital and Solvency Return*

Third Point Re BDA and Third Point Re USA, as Class 4 insurers, are required to file with the BMA a statutory financial return. The statutory financial return includes, among other matters, the statutory financial statements and the calculations for the Class 4 insurer’s minimum solvency margin and liquidity ratio.

In addition, each year Third Point Re BDA and Third Point Re USA, as Class 4 insurers, are also required to file with the BMA a capital and solvency return along with their annual financial statutory returns. The prescribed form of capital and solvency return comprises the insurer’s Bermuda Solvency Capital Requirement (“BSCR”) model or an approved internal capital model in lieu thereof (more fully described below), various schedules, a statutory economic balance sheet and the opinion of the loss reserve specialist.

#### *Quarterly Financial Statements*

Third Point Re BDA and Third Point Re USA, as Class 4 insurers are each required to prepare and file quarterly financial returns with the BMA on or before the last day of the months of May, August and November of each year.

#### *Public Disclosures*

Pursuant to recent amendments to the Insurance Act all commercial insurers and insurance groups are required to prepare and file with the BMA, and also publish on their website, a financial condition report.

#### *Non-insurance Business*

Third Point Re BDA and Third Point Re USA, as Class 4 insurers may not engage in non-insurance business unless that non-insurance business is ancillary to their core insurance business.

#### *Minimum Liquidity Ratio*

The Insurance Act provides a minimum liquidity ratio for general business. As an insurer engaged in general business, Third Point Re BDA and Third Point Re USA are each required to maintain the value of their relevant assets at not less than 75% of the amount of their relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable, reinsurance balances receivable, funds held by ceding reinsurers and any other assets which the BMA, on application in any particular case made to it with reasons, accepts in that case. There are certain categories of assets that, unless specifically permitted by the BMA, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income taxes and letters of credit, guarantees and other instruments.

### *Minimum Solvency Margin and Enhanced Capital Requirements*

The Insurance Act provides that the value of the statutory assets of an insurer must exceed the value of its statutory liabilities by an amount greater than its prescribed minimum solvency margin (the “MSM”). The MSM that must be maintained by a Class 4 insurer with respect to its general business is the greater of (i) \$100 million, or (ii) 50% of net premium written (with a credit for reinsurance ceded not exceeding 25% of gross premiums) or (iii) 15% of net loss and loss expense provisions and other insurance reserves; or (iv) 25% of the ECR (as defined below) as reported at the end of the relevant year.

Class 4 insurers are also required to maintain available statutory economic capital and surplus at a level equal to or in excess of its enhanced capital requirement (“ECR”), which is established by reference to either the BSCR model or an approved internal capital model. The BMA has also implemented the economic balance sheet (“EBS”) framework, which is used as the basis to determine an insurer’s ECR. Under the new framework, assets and liabilities are mainly assessed and included on the EBS at fair value, with the insurer’s U.S. GAAP balance sheet serving as a starting point. The model also requires insurers to estimate insurance technical provisions, which consist of the insurer’s insurance related balances valued based on best-estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate, with the addition of a risk margin to reflect the uncertainty in the underlying cash flows.

The BSCR model is a risk-based capital model which provides a method for determining a Class 4 insurer’s capital requirements (statutory economic capital and surplus) by taking into account the risk characteristics of different aspects of the Class 4 insurer’s business.

While not specifically referred to in the Insurance Act, the BMA has also established a target capital level (“TCL”) for each Class 4 insurer equal to 120% of its ECR. While a Class 4 insurer is not currently required to maintain its statutory capital and surplus at this level, the TCL serves as an early warning tool for the BMA and failure to maintain statutory capital at least equal to the TCL will likely result in increased regulatory oversight.

### *Eligible Capital*

To enable the BMA to better assess the quality of the insurer’s capital resources, a Class 4 insurer is required to disclose the makeup of its capital in accordance with the recently introduced ‘3-tiered capital system’. Under this system, all of the insurer’s capital instruments will be classified as either basic or ancillary capital, which in turn will be classified into one of 3 tiers based on their “loss absorbency” characteristics. Under this regime, up to certain specified percentages of Tier 1, Tier 2 and Tier 3 Capital may be used to support the insurer’s MSM, ECR and TCL.

### *Code of Conduct*

Every Bermuda registered insurer must comply with the Insurance Code of Conduct, which prescribes duties, standards, procedures and sound business principles.

### *Restrictions on Dividends and Distributions*

A Class 4 insurer is prohibited from declaring or paying a dividend if it is in breach of its MSM, ECR or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. Where an insurer 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 BMA.

In addition, a Class 4 insurer is prohibited from declaring or paying in any financial year dividends of more than 25% of its 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 dividends) 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. Where such an affidavit is filed, it shall be available for public inspection at the offices of the BMA.

### *Reduction of Capital*

Neither Third Point Re BDA nor Third Point Re USA, as general business insurers, may reduce its total statutory capital by 15% or more, as set out in their respective previous year's financial statements, unless it has received the prior approval of the BMA. Total statutory capital consists of the insurer's paid in share capital, its contributed surplus (sometimes called additional paid in capital) and any other fixed capital designated by the BMA as statutory capital (such as letters of credit).

### *Fit and Proper Controllers*

The BMA maintains supervision over the controllers of all registered insurers in Bermuda. A controller includes (i) the managing director of the registered insurer or its parent company; (ii) the chief executive of the registered insurer or of its parent company; (iii) a shareholder controller; and, (iv) any person in accordance with whose directions or instructions the directors of the registered insurer or of its parent company are accustomed to act.

The definition of shareholder controller is set out in the Insurance Act but generally refers to (i) a person who holds 10% or more of the shares carrying rights to vote at a shareholders' meeting of the registered insurer or its parent company, or (ii) a person who is entitled to exercise 10% or more of the voting power at any shareholders' meeting of such registered insurer or its parent company, or (iii) a person who is able to exercise significant influence over the management of the registered insurer or its parent company by virtue of its shareholding or its entitlement to exercise, or control the exercise of, the voting power at any shareholders' meeting.

A shareholder controller that owns 10% or more but less than 20% of the shares as described above is defined as a 10% shareholder controller; a shareholder controller that owns 20% or more but less than 33% of the shares as described above is defined as a 20% shareholder controller; a shareholder controller that owns 33% or more but less than 50% of the shares as described above is defined as a 33% shareholder controller; and a shareholder controller that owns 50% or more of the shares as described above is defined as a 50% shareholder controller.

Where the shares of the registered insurer, or the shares of its parent company, are traded on a recognised stock exchange, and such person becomes a 10%, 20%, 33% or 50% shareholder controller of the insurer, that person shall, within 45 days, notify the BMA in writing that he has become such a controller. In addition, a person who is a shareholder controller of a Class 4 insurer whose shares or the shares of its parent company (if any) are traded on a recognised stock exchange must serve on the Authority a notice in writing that he has reduced or disposed of his holding in the insurer where the proportion of voting rights in the insurer held by him will have reached or has fallen below 10%, 20%, 33% or 50% as the case may be, not later than 45 days after such disposal.

Where the shares of an insurer, or the shares of its parent company, are not traded on a recognised stock exchange (i.e., private companies), the Insurance Act prohibits such person from becoming a shareholder controller unless he has first served on the BMA notice in writing stating that he intends to become such a controller and the BMA has either, before the end of 45 days following the date of notification, provided notice to the proposed controller that it does not object to his becoming such a controller or the full 45 days has elapsed without the BMA filing an objection. In addition, a shareholder controller of Third Point Re BDA or Third Point Re USA is not permitted to reduce or dispose of its holdings such that it will cease to be a 50%, 33%, 20% or 10% shareholder unless that shareholder controller notifies the BMA in writing that it intends to do so.

### *Notification by Registered Person of Change of Controllers and Officers*

All registered insurers are required to give written notice to the BMA of the fact that a person has become, or ceased to be, a controller or officer of the registered insurer within 45 days of becoming aware of such fact.

### *Notification of Material Changes*

All registered insurers are required to give notice to the BMA of their intention to effect a material change within the meaning of the Insurance Act. No registered insurer shall take any steps to give effect to a material change unless it has first served notice on the BMA that it intends to effect such material change and before the end of 30 days, either the BMA has notified such company in writing that it has no objection to such change or that period has lapsed without the BMA having issued a notice of objection.

### *Supervision, Investigation, Intervention and Disclosure*

The BMA may, by notice in writing served on an insurer, require the insurer to provide such information and/or documentation as the BMA may reasonably require with respect to matters that are likely to be material to the performance of its supervisory functions under the Insurance Act. In addition, it may require such person's auditor, underwriter, accountant or any other person with relevant professional skill of such insurer to prepare a report on any aspect pertaining thereto. If it appears to the BMA to be desirable in the interests of the clients of an insurer, the BMA may also exercise these powers in relation to subsidiaries, parent companies and other affiliates of the insurer or designated insurer.

### *Disclosure of Information*

In addition to powers under the Insurance Act to investigate the affairs of an insurer, the BMA may require certain information from an insurer (or certain other persons) to be produced to the BMA. Further, the BMA has been given powers to assist other regulatory authorities, including foreign insurance regulatory authorities, with their investigations involving insurance and reinsurance companies in Bermuda if it is satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities and that such cooperation is in the public interest.

### *Certain Other Bermuda Law Considerations*

All Bermuda companies must comply with the provisions of the Companies Act regulating the payment of dividends and making distributions from contributed surplus. A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that: (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realizable value of the company's assets would thereby be less than its liabilities.

### ***United States Insurance Regulation***

In addition to the regulatory requirements imposed by the jurisdictions in which they are licensed, reinsurers are subject to indirect regulatory requirements imposed by jurisdictions in which their ceding companies are licensed through the "credit for reinsurance" mechanism. In general, a ceding company that obtains reinsurance from a reinsurer that is licensed, accredited or approved by the jurisdiction or state in which the insurer files statutory financial statements is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the liability for unearned premiums and loss reserves and loss adjustment expense reserves ceded to the reinsurer.

In the United States, many states allow credit for reinsurance ceded to a reinsurer that is domiciled and licensed in another state of the United States and meets certain financial requirements. A few states do not allow credit for reinsurance ceded to non-licensed reinsurers except in certain limited circumstances and others impose additional requirements that make it difficult to become accredited. The great majority of states, however, permit the reduction in statutory surplus resulting from reinsurance obtained from a non-licensed or non-accredited reinsurer to be offset to the extent that the reinsurer provides a letter of credit or other acceptable security arrangement, and a few states reduce the amount of security to be posted based on a number of factors, including the credit rating given to a reinsurer from a U.S.-nationally recognised statistical rating organization.

### **Information Technology**

We have a disaster recovery plan with respect to our information technology infrastructure that includes arrangements with an offshore data center. Our secondary off-island location for data systems back-up and recovery is located in Toronto, Canada, providing a remote site, that we believe is unlikely to be subject to the same disaster events that might impair our operations in Bermuda. The environment is configured to be live within one hour of a disaster scenario and supports the necessary business capabilities of our Bermuda and U.S. operations.

### **Employees**

As of December 31, 2017, we had 25 employees, 18 of whom were based in Bermuda, 6 of whom were based in the United States and 1 of whom was based in the United Kingdom. We believe that our employee relations are good. None



of our employees are subject to collective bargaining agreements, and we are not aware of any current efforts to implement such agreements.

### **Available Information**

Third Point Re files annual, quarterly and current reports and other information with the SEC. You may read and copy any documents that we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 to obtain further information about the public reference room. In addition, the SEC maintains an Internet website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including us. You may also access, free of charge, our reports filed with the SEC (for example, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K and any amendments to those forms) through the "Investors" portion of our Internet website ([www.thirdpointre.bm](http://www.thirdpointre.bm)). Reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC. We also make available, free of charge from our website, our Code of Business Conduct and Ethics, Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, Governance and Nominating Committee Charter, and Board of Directors Communications Policy. Such information is available to print for any shareholder who sends a request to Third Point Reinsurance Ltd., Attn: Office of the Corporate Secretary, 3 Waterloo Lane, Pembroke, Bermuda, HM08. Our website is included in this Annual Report as an inactive textual reference only. The information found on our website is not part of this or any other report filed with or furnished to the SEC.

Third Point Re has fully and unconditionally guaranteed the debt securities issued by TPRUSA in February 2015; as a result no separate filings are made by TPRUSA with the SEC. See Note 25 to our audited consolidated financial statements included elsewhere in this Annual Report for additional information regarding TPRUSA.

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

*You should consider and read carefully all of the risks and uncertainties described below, as well as other information included in this Annual Report, including our consolidated financial statements and related notes. The risks described below are not the only ones facing us. The occurrence of any of the following risks or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial could materially and adversely affect our business, financial condition or results of operations. This Annual Report also contains forward-looking statements and estimates that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of specific factors, including the risks and uncertainties described below.*

#### **Risks Related to Our Business**

***Our results of operations fluctuate from period to period and may not be indicative of our long-term prospects.***

The performance of our reinsurance operations and our investment portfolio fluctuate from period to period. Fluctuations result from a variety of factors, including:

- the performance of our investment portfolio;
- reinsurance contract pricing;
- our assessment of the quality of available reinsurance opportunities;
- the volume and mix of reinsurance products we underwrite;
- loss experience on our reinsurance liabilities; and
- our ability to assess and integrate our risk management strategy properly.

In particular, we seek to underwrite products and make investments to achieve a favorable return on equity over the long term. In addition, our opportunistic nature and focus on long-term growth in book value will result in fluctuations in total premiums written from period to period as we concentrate on underwriting contracts that we believe will generate better long-term, rather than short-term, results. Accordingly, our short-term results of operations may not be indicative of our long-term prospects.

***Established competitors with greater resources may make it difficult for us to effectively market our products or offer our products at a profit.***

The reinsurance industry is highly competitive. We compete with major reinsurers, many of which have substantially greater financial, marketing and management resources than we do, as well as other potential providers of capital willing to assume insurance or reinsurance risk. Competition in the types of business that we underwrite is based on many factors, including:

- price of reinsurance coverage;
- the general reputation and perceived financial strength of the reinsurer;
- relationships with reinsurance brokers;
- terms and conditions of products offered;
- ratings assigned by independent rating agencies;
- speed of claims payment and reputation; and
- the experience and reputation of the members of our underwriting team in the particular lines of reinsurance we seek to underwrite.

Our competitors include, among others, Alleghany Corporation, Allianz SE, Arch Capital Group Ltd., AXIS Capital Holdings Ltd., Berkshire Hathaway Inc., Chubb Limited, Enstar Group Limited, Everest Re Group, Ltd., Greenlight Reinsurance Ltd., Hamilton Insurance Group Ltd., Hannover Rückversicherung AG, IAT Reinsurance Co Ltd, Maiden Holdings Ltd., Münchener Rückversicherungs-Gesellschaft AG., PartnerRe Ltd., RenaissanceRe Holdings Ltd., SCOR SE, Sirius International Insurance Group, Ltd., Swiss Re Limited, Tokio Marine Holdings, Inc., Watford Re Ltd. and XL Group Ltd.

We cannot assure you that we will be able to compete successfully in the reinsurance market. Our failure to compete effectively would significantly and negatively affect our financial condition and results of operations and may increase the likelihood that we are deemed to be a passive foreign investment company or an investment company. See “Risks Relating to Insurance and Other Regulation-We are subject to the risk of becoming an investment company under U.S. federal securities law” and “Risks Relating to Taxation-United States persons who own our shares may be subject to United States federal income taxation on our undistributed earnings and may recognize ordinary income upon disposition of shares.”

***If actual renewals of our existing contracts do not meet expectations, our premiums written in future years and our future results of operations could be materially adversely affected.***

Many of our contracts are written for a one-year term. In our financial forecasting process, we make assumptions about the renewal of certain prior year’s contracts. The insurance and reinsurance industries have historically been cyclical businesses with periods of intense competition, often based on price. If actual renewals do not meet expectations or if we choose not to write on a renewal basis because of pricing conditions, our premiums written in future years and our future operations would be materially adversely affected.

***The inherent uncertainty of models and the use of such models as a tool to evaluate risk may have an adverse effect on our financial results.***

We make use of quantitative models to evaluate potential reinsurance transactions, to reserve for transactions once they are bound and to assess our risk related to our reinsurance and investment portfolios. These models have been developed internally and in some cases they make use of third party software. The construction of these models and the selection of assumptions requires significant actuarial judgment. Furthermore, these models typically rely on either cedent or industry data, both of which may be incomplete or may be subject to errors by employees, failure to document transactions properly, failure to comply with regulatory requirements or information technology failures. Given the inherent uncertainty in these models as well as the underlying assumptions and data, the results of our models may not accurately address the emergence of a variety of matters which might impact certain of our coverages. Accordingly, these models may understate the exposures we are assuming and our financial results may be adversely affected, perhaps significantly. Any such impact could also be felt across our reinsurance contract portfolio, since similar models and judgment are used in analyzing the majority of our transactions.

***Our losses may exceed our loss reserves, which could significantly and negatively affect our business.***

Our results of operations and financial condition depends upon our ability to assess accurately the potential losses associated with the risks we reinsure. Reserves are estimates of claims an insurer ultimately expects to pay, based upon facts and circumstances known at the time, predictions of future events, estimates of future trends in claim severity and other variable factors. The inherent uncertainties of estimating loss reserves generally are greater for reinsurance companies as compared to primary insurers, primarily due to:

- the lapse of time from the occurrence of an event to the reporting of the claim and the ultimate resolution or settlement of the claim;
- the diversity of development patterns among different types of reinsurance treaties; and
- heavier reliance on the client for information regarding claims.

Actual losses and loss adjustment expenses paid may deviate substantially from the estimates of our loss reserves, to our detriment. If we determine our loss reserves to be inadequate, we will increase our loss reserves with a corresponding reduction in our net income in the period in which we identify the deficiency. Such a reduction would negatively affect our results of operations. If our losses exceed our loss reserves, our financial condition may be significantly and negatively affected.

As a recently formed reinsurance company, we do not have the benefit of extended loss experience with our cedents. With additional time, we may determine that our cedents' loss emergence, incurred and payment patterns are different from those implied in the original submission data. Consequently, we may experience greater than average deviation in our loss reserve estimates when compared to our more established competitors.

***The failure of any of the loss limitation methods we employ could have a material adverse effect on our financial condition and results of operations.***

Although we seek to mitigate our loss exposure through a variety of methods, property and casualty reinsurance risk is inherently unpredictable. It is difficult to predict the timing, frequency and severity of loss events with statistical certainty or estimate the amount of loss any given occurrence will generate. It is not possible to completely eliminate our exposure to unforecasted or unpredictable events and, to the extent that losses from such risks occur, our financial condition and results of operations could be materially adversely affected.

We seek to manage reinsurance volatility by focusing on lines of business that have historically demonstrated more stable return characteristics, such as property quota share, auto, and workers' compensation. These lines of business are often characterized as having exposure to higher frequency and lower severity claims activity, although this has not always been the case. We seek to further manage the volatility of our reinsurance results by writing contracts on a quota share basis and through the use of contractual terms and conditions, such as loss ratio caps, within our reinsurance contracts. However, there can be no assurance that these terms and conditions will be effective in mitigating our exposure. The failure or ineffectiveness of any of our terms and conditions could have a material adverse effect on our financial condition and results of operations.

We also write reinsurance contracts that seek to provide protection against adverse development on loss reserves. We seek to provide this type of coverage only on relatively stable reserves where we agree with the client's reserving practices and actuarially determined reserve levels.

***The property and casualty reinsurance industry is highly cyclical, and we expect to continue to experience periods characterized by excess underwriting capacity and unfavorable premium rates.***

Historically, reinsurers have experienced significant fluctuations in operating results due to competition, frequency of occurrence or severity of catastrophic events, levels of capacity, general economic conditions, including inflation, changes in equity, debt and other investment markets, changes in legislation, case law and prevailing concepts of liability and other factors. In particular, demand for reinsurance is influenced significantly by the underwriting results of primary insurers and prevailing general economic conditions. The supply of reinsurance is related to prevailing prices and levels of surplus capacity that, in turn, may fluctuate in response to changes in rates of return being realized in the reinsurance industry on both underwriting and investment sides.

As a result, the reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to high levels of available underwriting capacity as well as periods when shortages of capacity have permitted favorable premium levels and changes in terms and conditions. The supply of available reinsurance capital has increased over the past several years and may increase further, either as a result of capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers.

Continued increases in the supply of reinsurance may have consequences for us and for the reinsurance industry generally, including fewer contracts written, lower premium rates, increased expenses for customer acquisition and retention, and less favorable policy terms and conditions. As a result, we may be unable to fully execute our reinsurance strategy of selling lower-volatility business. The effects of cyclicalities could significantly and negatively affect our financial condition and results of operations and could limit their comparability from period to period and year over year.

***The effect of emerging claim and coverage issues on our business is uncertain.***

As industry practices and legal, judicial and regulatory conditions change, unexpected issues related to claims and coverage may emerge. Various provisions of our contracts, such as limitations or exclusions from coverage or choice of forum, may be difficult to enforce in the manner we intend, due to, among other things, disputes relating to coverage and choice of legal forum. These issues may adversely affect our business by either extending coverage beyond the period that we intended or by increasing the number or size of claims. In some instances, these changes may not manifest themselves until many years after we have issued insurance or reinsurance contracts that are affected by these changes. As a result, we may not be able to ascertain the full extent of our liabilities under our insurance or reinsurance contracts for many years following the issuance of our contracts. The effects of unforeseen development or substantial government intervention could adversely impact our ability to adhere to our goals.

***A downgrade or withdrawal of our A.M. Best rating would significantly and negatively affect our ability to implement our business strategy successfully.***

Companies, insurers and reinsurance brokers use ratings from independent ratings agencies as an important means of assessing the financial strength and quality of reinsurers. A.M. Best has assigned each of our reinsurance company subsidiaries a financial strength rating of A- (Excellent), which is the fourth highest of 15 ratings that A.M. Best issues. This rating reflects the rating agency's opinion of the applicable insurer's financial strength, operating performance and ability to meet obligations. It is not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our shares. A.M. Best periodically reviews our rating, and may revise it downward or revoke it at its sole discretion based primarily on its analysis of our balance sheet strength, operating performance and business profile. Factors which may affect such an analysis include:

- if we change our business practices from our organizational business plan in a manner that no longer supports A.M. Best's initial rating;
- if unfavorable financial or market trends impact us;
- if losses exceed loss reserves;
- if we are unable to retain our senior management and other key personnel;
- if our investment portfolio incurs significant losses; or
- if A.M. Best alters its capital adequacy assessment methodology in a manner that would adversely affect the rating of Third Point Re BDA or Third Point Re USA.

If A.M. Best downgrades the rating of either Third Point Re BDA or Third Point Re USA below A- (Excellent), places either reinsurer on credit watch or withdraws its rating, we could be severely limited or prevented from writing any new reinsurance contracts from the affected reinsurer which would significantly and negatively affect our ability to implement our business strategy. A downgrade may also require us to establish trusts or post letters of credit for ceding company clients. In addition, almost all of our reinsurance contracts provide the client with the right to terminate the agreement or require us to transfer premiums on a funds withheld basis if our A- (Excellent) A.M. Best rating is downgraded.

In February 2015, Third Point Re (USA) Holdings Inc., our wholly owned subsidiary, completed a public offering of \$115.0 million in aggregate principal amount of 7.0% senior notes due 2025 (the “Senior Notes”). The Senior Notes are fully and unconditionally guaranteed (the “Guarantee”) by Third Point Re. In certain circumstances, a downgrade of the rating assigned to the Senior Notes would result in an increase in the annual interest rate payable on the Senior Notes or, if a change of control of TPRE has also occurred, an obligation for us to make an offer to repurchase the Senior Notes at a premium. Either of these outcomes could require use of cash that we might otherwise use in operating our business. In addition, we may not have sufficient funds to satisfy these obligations, which could result in an event of default under the indenture governing the Senior Notes. See “Inability to service our indebtedness could adversely affect our liquidity and financial condition and could potentially result in a downgrade or withdrawal of our credit ratings, any of which would adversely affect our ability to implement our business strategy.”

***A significant decrease in our capital or surplus could enable certain clients to terminate reinsurance agreements or to require additional collateral.***

Certain of our reinsurance contracts contain provisions that permit our clients to cancel the contract or require additional collateral in the event of a downgrade in our ratings below specified levels or a reduction of our capital or surplus below specified levels over the course of the agreement. Whether a client would exercise such cancellation rights would likely depend, among other things, on the reason the provision is triggered, the prevailing market conditions, the degree of unexpired coverage and the pricing and availability of replacement reinsurance coverage.

If any such provisions were to become exercisable, we cannot predict whether or how many of our clients would actually exercise such rights or the extent to which such rights would have a significant and negative effect on our financial condition, results of operations or future prospects but they could have a significant adverse effect on our operations and our ability to post sufficient collateral for reinsurance obligations.

***We are dependent on key executives, the loss of whom could adversely affect our business.***

Our future success depends to a significant extent on the efforts of our senior management and our senior underwriting executives to implement our business strategy. We believe there are only a limited number of available and qualified executives with substantial experience in our industry. Accordingly, the loss of the services of one or more of the members of our senior management or other key personnel could delay or prevent us from fully implementing our business strategy and, consequently, significantly and negatively affect our business.

We do not currently maintain key man life insurance with respect to any of our senior management. If any member of senior management dies or becomes incapacitated, or leaves the company to pursue employment opportunities elsewhere, we would be solely responsible for locating an adequate replacement for such senior management and for bearing any related cost. To the extent that we are unable to locate an adequate replacement or are unable to do so within a reasonable period of time, our business may be significantly and negatively affected.

In addition, our business operations require the services of a number of specialized employees to carry out day-to-day business operations. There can be no assurance that we can attract and retain the necessary employees to conduct our business activities on a timely basis or at all.

***Our inability to provide collateral to certain counterparties on commercially acceptable terms as we grow could significantly and negatively affect our ability to implement our business strategy.***

Neither Third Point Re BDA nor Third Point Re USA is licensed or admitted as a reinsurer in any jurisdiction other than Bermuda. Certain jurisdictions, including in the United States, do not permit insurance companies to take statutory credit for reinsurance obtained from unlicensed or non-admitted insurers unless appropriate security measures are implemented. Consequently, certain clients require us to obtain a letter of credit or provide other collateral through funds withheld or trust arrangements. In connection with obtaining letter of credit facilities, we are typically required to provide customary collateral to the letter of credit provider in order to secure our obligations under the facility. Our ability to provide collateral, and the costs at which we provide collateral, is primarily dependent on the composition of our investment portfolio.

Typically, both letters of credit and collateral trust agreements are collateralized with cash or fixed-income securities. Banks may be willing to accept our investment portfolio as collateral, but on terms that may be less favorable to us than reinsurance companies that invest solely or predominantly in fixed-income securities. The inability to renew, maintain or obtain letters of credit or to source acceptable collateral for letters of credit or collateral trust agreements may significantly limit the amount of reinsurance we can write or require us to modify our investment strategy.

We expect to need additional collateral capacity as we grow, and if we are unable to renew, maintain or increase our collateral capacity or are unable to do so on commercially acceptable terms, such a development could significantly and negatively affect our ability to implement our business strategy.

***Our ability to pay dividends may be constrained by our holding company structure and certain regulatory and other factors.***

Third Point Re is a holding company that conducts no reinsurance operations of its own. The majority of our reinsurance operations are conducted through our wholly-owned operating subsidiaries, Third Point Re BDA and Third Point Re USA. Our cash flows currently consist primarily of dividends and other permissible payments from Third Point Re BDA and Third Point Re USA. Third Point Re depends on such payments to receive funds to meet its obligations, including the payment of any dividends and other distributions to our shareholders and any payment obligations in respect of its guarantee of the Senior Notes issued by TPRUSA in February 2015. See “Inability to service our indebtedness could adversely affect our liquidity and financial condition and could potentially result in a downgrade or withdrawal of our credit ratings, any of which would adversely affect our ability to implement our business strategy.”

In order to remain in compliance with the Net Worth Maintenance Agreement, we 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.

Third Point Re is indirectly subject to Bermuda regulatory constraints placed on Third Point Re BDA and Third Point Re USA. This affects our ability to pay dividends on the shares and make other payments. Under the Insurance Act, Third Point Re BDA and Third Point Re USA, as Class 4 insurers, are prohibited from declaring or paying a dividend if the relevant insurer is in breach of its 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 BDA 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, they are prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA.

In addition, Third Point Re BDA and Third Point Re USA, as Class 4 insurers, are prohibited from declaring or paying in any financial year dividends of more than 25% of their respective total statutory capital and surplus (as shown on its previous financial year’s statutory balance sheet) unless they file (at least seven days before payment of such dividends) 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 relevant insurer’s principal representative stating that the relevant insurer will continue to meet its solvency margin and minimum liquidity ratios. Where such an affidavit is filed, it shall be available for public inspection at the offices of the BMA.

In addition, under the Bermuda Companies Act 1981, as amended (the “Companies Act”), Bermuda companies such as Third Point Re, Third Point Re BDA and Third Point Re USA may not declare or pay a dividend if there are reasonable grounds for believing that the relevant Bermuda company is, or would after the payment be, unable to pay its liabilities as they become due or that the realizable value of its assets would thereby be less than its liabilities.

***Inability to service our indebtedness could adversely affect our liquidity and financial condition and could potentially result in a downgrade or withdrawal of our credit ratings, any of which would adversely affect our ability to implement our business strategy.***

In February 2015, Third Point Re (USA) Holdings Inc., our wholly owned subsidiary, completed a public offering of \$115.0 million in aggregate principal amount of Senior Notes. The Senior Notes are fully and unconditionally guaranteed by Third Point Re.

The Senior Notes are an obligation of TPRUSA, and the Guarantee is an obligation of TPPE. Each of TPRUSA and TPPE is a holding company and, accordingly, conduct substantially all operations through their respective operating subsidiaries. As a result, TPRUSA's cash flow and its ability to service its debt, as well as TPPE's ability to satisfy its obligations pursuant to the Guarantee, depend in part upon the earnings of their respective operating subsidiaries and on the distribution of earnings, loans or other payments from such subsidiaries to TPRUSA or TPPE, as applicable. See "Risk Factors-Our ability to pay dividends may be constrained by our holding company structure and certain regulatory and other factors."

The operating subsidiaries of TPRUSA and TPPE are separate and distinct legal entities and have no obligation to pay any amounts due on the Senior Notes or the Guarantee or to provide TPRUSA or TPPE with funds for their respective payment obligations, whether by dividends, distributions, loans or other payments. There can be no assurance that our operating subsidiaries will generate sufficient cash flow from operations, or that future financing sources will be available to us in amounts sufficient to satisfy our obligations under our indebtedness, to refinance our indebtedness on acceptable terms or at all, or to fund our other business needs. In addition to being limited by the financial condition and operating requirements of such subsidiaries, any payment of dividends, distributions, loans or advances by TPRUSA's or TPPE's subsidiaries to TPRUSA or TPPE could be subject to statutory or contractual restrictions. Moreover, since certain of TPRUSA's and TPPE's respective subsidiaries are insurance companies, their ability to pay dividends to TPRUSA or TPPE, as applicable, is subject to regulatory limitations. See "Business-Regulation."

To the extent that either TPRUSA or TPPE needs funds but its subsidiaries are restricted from making such distributions under applicable law or regulation, or are otherwise unable to distribute funds, the liquidity and financial condition of TPRUSA or TPPE, as applicable, would be adversely affected and we would potentially be unable to satisfy our obligations under the Senior Notes, the Guarantee or any other indebtedness. If we cannot service our indebtedness, the implementation of our business strategy would be impeded, and we could be prevented from entering into transactions that would otherwise benefit our business.

The rights of TPRUSA and TPPE to receive any assets of any of their respective subsidiaries upon liquidation or reorganization of such subsidiaries, and therefore the rights of the holders of the Senior Notes, to participate in those assets, will be structurally subordinated to the claims of such subsidiary's creditors. In addition, even if TPRUSA or TPPE were a creditor of any of their respective subsidiaries, the rights of TPRUSA or TPPE, as applicable, as a creditor would be subordinate to any security interest in the assets of such subsidiaries and any indebtedness of such subsidiaries senior to that held by it. The Senior Notes and the Guarantee would also be structurally subordinated to the rights of the holders of any preferred stock or shares issued by the subsidiaries of either TPRUSA or TPPE, as applicable, whether currently outstanding or issued hereafter. Moreover, the rights of shareholders of TPPE to receive any assets of TPPE upon liquidation or reorganization of TPPE would be subordinate to all of the foregoing claims.

***Our indebtedness may limit cash flow available to invest in the ongoing needs of our business, and may otherwise place us at a competitive disadvantage compared to our competitors.***

We could in the future incur additional indebtedness in addition to the Senior Notes. The indenture governing the Senior Notes does not limit the amount of additional indebtedness we may incur. Our debt combined with our other financial obligations and contractual commitments could have significant adverse consequences, including:

- requiring us to dedicate a substantial portion of cash flow from operations to the payment of interest on, and principal of, our debt, which will reduce the amounts available to fund working capital, the expansion of our business and other general corporate purposes;
- increasing our vulnerability to adverse changes in general economic, industry and market conditions, and exposing us to the risk of increased interest rates;
- obligating us to additional restrictive covenants that may reduce our ability to take certain corporate actions or obtain further debt or equity financing;
- making it more difficult for us to make payments on our existing or future obligations;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and
- placing us at a competitive disadvantage compared to our competitors that have less debt or better debt servicing options.

In addition, a failure to comply with the covenants under our debt instruments could result in an event of default under those instruments. In the event of an acceleration of amounts due under our debt instruments as a result of an event of default, we may not have sufficient funds and may be unable to arrange for additional financing to repay our indebtedness, and the lenders could seek to enforce security interests in the collateral securing such indebtedness.

***We may not have the ability to raise the funds necessary to pay the principal of or interest on the Senior Notes.***

At maturity, the entire principal amount of the Senior Notes then outstanding, plus any accrued and unpaid interest, will become due and payable. TPRUSA must pay interest in cash on the Senior Notes semi-annually on February 13 and August 13 of each year. The amount of interest payable on the Senior Notes is subject to increase from time to time in the event of a downgrade of the rating assigned to the Senior Notes or in connection with certain other events. In addition, upon the occurrence of a change of control triggering event described in the indenture governing the Senior Notes, unless we have exercised our right to redeem the Senior Notes in accordance with their terms, each holder of Senior Notes will have the right to require us to repurchase all or any part of such holder's Senior Notes for a payment in cash described in the indenture governing the Senior Notes.

We may not have enough available cash or be able to obtain sufficient financing at the time we are required to make these payments. Furthermore, our ability to make these payments may be limited by law, by regulatory authority or by agreements governing future indebtedness. Our failure to pay interest when due, if uncured for 30 days, or our failure to pay the principal amount when due, will constitute an event of default under the indenture governing the Senior Notes. A default under the indenture could also lead to a default under agreements governing future indebtedness. If the repayment of that indebtedness is accelerated as a result, then we may not have sufficient funds to repay that indebtedness or to pay the principal of or interest on the Senior Notes.

***We may need additional capital in the future in order to operate our business, and such capital may not be available to us or may not be available to us on acceptable terms. Furthermore, additional capital raising could dilute your ownership interest in our company and may cause the value of the shares to decline.***

We may need to raise additional capital in the future through offerings of debt or equity securities or otherwise to:

- fund liquidity needs caused by underwriting or investment losses;
- replace capital lost in the event of significant reinsurance losses or adverse reserve developments;
- satisfy letters of credit, guarantee bond requirements or other capital requirements that may be imposed by our clients or by regulators;
- meet rating agency or regulatory capital requirements; or
- respond to competitive pressures.

In February 2015, we completed a public offering of \$115.0 million in aggregate principal amount of Senior Notes issued by TPRUSA and guaranteed by Third Point Re. These Senior Notes are structurally senior to claims that any holders of our common shares may have on the assets of Third Point Re.

Additional capital may not be available on terms favorable to us, or at all. Further, any additional capital raised through the sale of equity could dilute your ownership interest in our company and may cause the value of our shares to decline. Additional capital raised through the issuance of debt may result in creditors having rights, preferences and privileges senior or otherwise superior to those of the holders of our shares.

***We depend on our clients' evaluations of the risks associated with their insurance underwriting, which may subject us to reinsurance losses.***

In most of our quota share reinsurance business we do not separately evaluate each of the original individual risks assumed under these reinsurance contracts. We instead evaluate the underwriting processes and environment at the ceding companies we work with to assess the risks associated with their portfolios. Therefore, we are dependent on the original underwriting decisions made by ceding companies. We are subject to the risk that the clients may not have adequately evaluated the insured risks and that the premiums ceded may not adequately compensate us for the risks we assume. We also do not separately evaluate each of the individual claims made on the underlying insurance contracts.



Therefore, we are dependent on the original claims decisions made by our clients. We are subject to the risk that the client may pay invalid claims, which could result in reinsurance losses for us.

***The involvement of reinsurance brokers subjects us to their credit risk.***

In accordance with industry practice, we frequently pay amounts owed on claims under our policies to reinsurance brokers, and these brokers, in turn, remit these amounts to the ceding companies that have reinsured a portion of their liabilities with us. In some jurisdictions, if a broker fails to make such a payment, we might remain liable to the client for the deficiency notwithstanding the broker's obligation to make such payment. Conversely, in certain jurisdictions, when the client pays premiums for policies to reinsurance brokers for payment to us, these premiums are considered to have been paid and the client will no longer be liable to us for these premiums, whether or not we have actually received them. Consequently, we assume a degree of credit risk associated with reinsurance brokers around the world.

***The inability to obtain business provided from brokers could adversely affect our business strategy and results of operations.***

We market our reinsurance worldwide primarily through reinsurance brokers. Business placed by our reinsurance brokers that each individually contributed more than 10% of total gross premiums written from inception to December 31, 2017 were: Aon Benfield, JLT Re and Guy Carpenter & Company, LLC, which accounted for 28.5%, 21.5% and 12.8%, respectively. Affiliates of several brokers have also co-sponsored the formation of Bermuda reinsurance companies that may compete with us, and these brokers may favor their own reinsurers over other companies. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.

***We may be unable to purchase reinsurance for the liabilities we reinsure, and if we successfully purchase such reinsurance, we may be unable to collect, which could adversely affect our business, financial condition and results of operations.***

We have purchased, and may continue to purchase, retrocessional coverage in order to mitigate the effect of a potential concentration of losses upon our financial condition. The insolvency or inability or refusal of a reinsurer to make payments under the terms of its agreement with us could have an adverse effect on us because we remain liable to our client. From time to time, market conditions have limited, and in some cases have prevented, reinsurers from obtaining the types and amounts of retrocession that they consider adequate for their business needs. Accordingly, we may not be able to obtain our desired amounts of retrocessional coverage or negotiate terms that we deem appropriate or acceptable or obtain retrocession from entities with satisfactory creditworthiness. Our failure to establish adequate retrocessional arrangements or the failure of our retrocessional arrangements to protect us from overly concentrated risk exposure could significantly and negatively affect our business, financial condition and results of operations.

***We face risks arising from future strategic transactions such as acquisitions, dispositions, mergers or joint ventures.***

We may pursue strategic transactions in the future, which could involve acquisitions or dispositions of businesses or assets. Any future strategic transactions could have an adverse impact on our reputation, business, results of operation or financial condition. We face a number of risks arising from these types of transaction, including financial, accounting, tax and regulatory challenges; difficulties with integration, business retention, execution of strategy, unforeseen liabilities or market conditions; and other managerial or operating risks and challenges. Any future transactions could also subject us to risks such as failure to obtain appropriate value, post-closing claims being levied against us and disruption to our other businesses during the negotiation or execution process or thereafter. Accordingly, these risks and difficulties may prevent us from realizing the expected benefits from the strategic transactions we enter into. For example, the businesses that we acquire or our strategic alliances or joint ventures may underperform relative to the price paid or resources committed by us; we may not achieve anticipated cost savings; or we may otherwise be adversely affected by transaction-related charges.

Through our strategic transactions, we may also assume unknown or undisclosed business, operational, tax, regulatory and other liabilities, fail to properly assess known contingent liabilities, or assume businesses with internal control deficiencies. Risk-mitigating provisions that we put in place in the course of negotiating and executing these transactions,

such as due diligence efforts and indemnification provisions, may not be sufficient to fully address these liabilities and contingencies.

***Technology breaches or failures, including those resulting from a malicious cyber-attack on us or our business partners and service providers, could disrupt or otherwise negatively impact our business.***

We rely on information technology systems to process, transmit, store and protect the electronic information, financial data and proprietary models that are critical to our business. Furthermore, a significant portion of the communications between our employees and our business, banking and investment partners depends on information technology and electronic information exchange. We have licensed certain systems and data from third parties. We cannot be certain that we will have access to these, or comparable systems, or that our technology or applications will continue to operate as intended. In addition, we cannot be certain that we would be able to replace these systems without slowing our underwriting response time. Like all companies, our information technology systems are vulnerable to data breaches, interruptions or failures due to events that may be beyond our control, including, but not limited to, natural disasters, theft, terrorist attacks, computer viruses, hackers and general technology failures.

We believe that we have established and implemented appropriate security measures, controls and procedures to safeguard our information technology systems and to prevent unauthorized access to such systems and any data processed or stored in such systems, and we periodically evaluate and test the adequacy of such systems, controls and procedures. In addition, we have established a business continuity plan which is designed to ensure that we are able to maintain all aspects of our key business processes functioning in the midst of certain disruptive events, including any disruptions to or breaches of our information technology systems. Our business continuity plan is routinely tested and evaluated for adequacy. Despite these safeguards, disruptions to and breaches of our information technology systems are possible and may negatively impact our business.

It is possible that insurance policies we have in place with third parties would not entirely protect us in the event that we experienced a breach, interruption or widespread failure of our information technology systems. Furthermore, we have not secured insurance coverage designed to specifically protect us from an economic loss resulting from such events.

Although we have never experienced any known or threatened cases involving unauthorized access to our information technology systems or unauthorized appropriation of the data contained within such systems, we have no assurance that such technology breaches will not occur in the future.

#### **Risks Relating to Our Investment Strategy and Investment Manager**

***We have limited control over how our investment portfolio is allocated, and its performance depends on the ability of our investment manager, Third Point LLC, to select and manage appropriate investments.***

We have engaged Third Point LLC to act as our exclusive investment manager for substantially all of our investment portfolio and to recommend appropriate investment opportunities. Although Third Point LLC is contractually obligated to follow our investment guidelines, we cannot assure shareholders as to exactly how assets will be allocated to different investment opportunities, including long and short positions and derivatives trading, which could increase the level of risk in our investment.

The performance of our investment portfolio depends to a great extent on the ability of Third Point LLC, as our investment manager to select and manage appropriate investments. We have entered into two investment management agreements with Third Point LLC, which terminate on December 22, 2021 and are subject to automatic renewal for additional successive three-year terms unless a party notifies the other parties at least six months prior to the end of a term that it wishes to terminate the investment management agreement at the end of such term. We have limited ability to terminate the investment management agreements earlier. We cannot assure you that Third Point LLC will be successful in meeting our investment objectives. The failure of Third Point LLC to perform adequately could significantly and negatively affect our business, results of operations and financial condition.

***The historical performance of Third Point LLC should not be considered as indicative of the future results of our investment portfolio or of our future results or of any returns expected on our common shares.***

The historical returns of the funds managed by Third Point LLC are not directly linked to returns on our common shares. Although as our investment manager, Third Point LLC has agreed to invest our portfolio on substantially the same basis as Third Point LLC's hedge funds, results for our investment portfolio could differ from results of the funds managed by Third Point LLC as a result of restrictions imposed by our investment guidelines. In addition, even if our investment portfolio generates investment income in a given period, our overall performance could be adversely affected by losses generated by our reinsurance operations or public market dynamics. Poor performance of our investment portfolio will cause a decline in our revenue from that portfolio and will therefore have a negative effect on our financial performance.

Moreover, with respect to the historical performance of funds or accounts managed by Third Point LLC, including our investment portfolio:

- the historical performance of funds managed by Third Point LLC should not be considered indicative of the future results that should be expected from our investment portfolio; and
- the returns of funds managed by Third Point LLC have benefited historically from investment opportunities and general market conditions that currently may not exist and may not repeat themselves, and there can be no assurance that Third Point LLC will be able to avail itself of profitable investment opportunities in the future.

***The risks associated with Third Point LLC's strategy in managing our investment portfolio may be substantially greater than the investment risks faced by other reinsurers with whom we compete.***

We may derive a significant portion of our income from our investment portfolio. As a result, our operating results depend in part on the performance of our investment portfolio. We cannot assure you that Third Point LLC, as our investment manager, will successfully structure our investments in relation to our anticipated liabilities. Failure to do so could force us to liquidate investments at a significant loss or at prices that are not optimal, which could significantly and adversely affect our financial results.

The risks associated with Third Point LLC's investment strategy may be substantially greater than the risks associated with traditional fixed-income investment strategies employed by many reinsurers with whom we compete. Third Point LLC makes investments globally, in both developed and emerging markets, in all sectors, and in equity, credit, commodity, currency, option and other instruments. Third Point LLC is opportunistic and often seeks a catalyst, either intrinsic or extrinsic, that will unlock value or alter the lens through which the greater market values a particular investment. Making long equity investments in an up or rising market may increase the risk of not generating profits on these investments and we may incur losses if the market declines. Similarly, making short equity investments in a down or falling market may increase the risk of not generating profits on these investments and we may incur losses if the market rises. Short sales involve unlimited loss potential since the market price of securities sold short may continuously increase. If the market price of the subject security increases considerably, Third Point LLC might have to cover short sales at suboptimal prices. As of December 31, 2017, short exposure in our consolidated investment portfolio was \$783.9 million consisting of 52 debt, equity and index positions, including \$692.0 million over 41 positions in the equity portfolio.

The market price of our common shares may be volatile and the risk of loss may be greater when compared with other reinsurance companies.

Although we conduct our business through our Class 4 Bermuda licensed insurance subsidiaries as operating reinsurance businesses actively engaged in writing property and casualty coverage, because our investment portfolio as managed by Third Point LLC may include a very small number of futures, options on futures, swaps and other commodity interests from time to time, we are exposed to the risk that the U.S. Commodity Futures Trading Commission (the "CFTC") could assert that our business has been operated for the purpose of trading commodity interests and that we are, therefore, a commodity pool. If this were to occur, our investment strategy and our business could be disrupted as we would be required to have a registered commodity pool operator in order to continue to include investments in commodity interests in our investment portfolio. Registered commodity pool operators are subject to disclosure,

reporting and record keeping requirements with respect to the pools they operate. In addition, if it were established that we were a commodity pool, the CFTC could pursue remedies against the party or parties it deems to be the commodity pool operator, and we could under certain circumstances be required to indemnify those individuals or entities.

***The termination by Third Point LLC of either our investment management agreements at the end of its term or any successive term could materially adversely affect our investment results.***

We depend upon Third Point LLC, our investment manager, to implement our investment strategy. The investment management agreements, each of which terminates on December 22, 2021, are subject to automatic renewal for additional successive three-year terms unless a party notifies the other parties at least six months prior to the end of a term that it wishes to terminate either investment management agreement in question at the end of such term. If Third Point LLC chooses to terminate either investment management agreement at the end of such term, there is no assurance that we could find a suitable replacement, and if we were to find a replacement, there is no guarantee that any such replacement would provide us with comparable or better investment results.

***Potential conflicts of interest with Third Point LLC may exist that could adversely affect us.***

Neither Third Point LLC nor its principals, including Daniel S. Loeb, who is one of our shareholders, are obligated to devote any specific amount of time to our affairs. Affiliates of Third Point LLC manage, and expect to continue to manage, other client accounts, some of which have objectives similar to ours, including collective investment vehicles managed by Third Point LLC's affiliates and in which Third Point LLC or its affiliates may have an equity interest. Pursuant to our investment management agreements with Third Point LLC, Third Point LLC has the exclusive right to manage our investment portfolio and is required to follow our investment guidelines and act in a manner that is fair and equitable in allocating investment opportunities to us, but the agreements do not otherwise impose any specific obligations or requirements concerning allocation of time, effort or investment opportunities to us or any restriction on the nature or timing of investments for our account and for Third Point LLC's own account or other accounts that Third Point LLC or its affiliates may manage. Third Point LLC's interest and the interests of its affiliates, may at times conflict, possibly to Third Point LLC's detriment, which may potentially adversely affect our investment opportunities and returns.

***Our investment portfolio may contain significant positions, which could result in large losses.***

Our investment guidelines provide that as our investment manager, Third Point LLC may commit up to 15% of our assets under management to any one investment. Our investment portfolio could be subject to significant losses if it holds a relatively large position in a single issuer, industry, market or a particular type of investment that declines in value, and the losses could increase even further if the investments cannot be liquidated without adverse market reaction or are otherwise adversely affected by changes in market conditions or circumstances. As of December 31, 2017 and 2016, the net exposure of our consolidated portfolio was 93% and 77%, respectively, and the largest ten long and short positions comprised an aggregate of 54% and 15% and 43% and 21%, respectively, of our consolidated investment portfolio. Since our investment portfolio may not be widely diversified at times, it may be subject to more rapid changes in value than would be the case if the investment portfolio were required to maintain a wide diversification among companies, securities and types of securities.

***We are exposed to credit risk from the possibility that counterparties may default on their obligations.***

To the extent that transactions in our investment portfolio are entered into directly and not through a broker or clearinghouse, including, but not limited to, forward foreign currency transactions, swap transactions, and the purchase and sale of bonds and other fixed income securities directly from the current holder thereof, we must rely on the creditworthiness of the counterparty to the extent it is unable to immediately deliver the promised asset or cash flows in the case of cash settled transactions, net of any collateral that has been posted by or to the counterparty. The bankruptcy or insolvency of these counterparties could also result in a loss of any collateral posted against these transactions.

In addition, any prime broker or custodian through whom transactions are effected in our investment portfolio will each have a lien over assets held in a margin account with such counterparty. Further, should a prime broker or custodian become insolvent, those assets may become unavailable for redemption and potentially classified as belonging to the defaulting party. The insolvency of any such prime broker or custodian could result in the loss of a substantial portion

or all of the assets held with such counterparty. Assets which are deposited with brokers as collateral against margin loss may become available to the creditors of the brokers in the event of the bankruptcy or insolvency of the broker to the extent that it is needed to satisfy obligations to the insolvent party. Any reduction in our assets as a result of a default by a prime broker could negatively affect the net asset value of our investment portfolio.

***If Third Point LLC's risk management systems are ineffective, we may be exposed to material unanticipated losses.***

Third Point LLC continually refines its risk management techniques, strategies and assessment methods. However, its risk management techniques and strategies do not fully mitigate the risk exposure of its funds and managed accounts, including our investment portfolio, in all economic or market environments, or against all types of risk, including risks that they might fail to identify or anticipate. Some of Third Point LLC's strategies for managing risk are based upon its use of historical market behavior statistics. Any failures in Third Point LLC's risk management techniques and strategies to accurately quantify such risk exposure could limit the risk-adjusted returns of our investment portfolio. In addition, any risk management failures could cause losses in the portfolios managed by Third Point LLC, including our managed accounts, to be significantly greater than the historical measures predict. Third Point LLC's approach to managing those risks could prove insufficient, exposing us to material unanticipated losses in our investment portfolio.

***In managing our investment portfolio, Third Point LLC may trade on margin and use other forms of financial leverage, which could potentially adversely affect our revenues.***

Our investment guidelines provide Third Point LLC with the ability to trade on margin and use other forms of financial leverage. Fluctuations in the market value of our investment portfolio could have a disproportionately large effect in relation to our capital. As of December 31, 2017, our investment account had \$1,053.0 million of margin debt at its brokers primarily related to borrowings to fund collateral arrangements. A common metric used to determine financial leverage for accounts such as our investment portfolio is the "gross exposure" of our managed accounts. The "gross exposure" is shown as a percentage of the Net Asset Value ("NAV") of the account, and represents the market exposure in the account (long and short) versus the NAV. In other words, if the NAV of an account is \$100, and the account holds securities "long" with an aggregate market exposure of \$100 (100% long), and has sold short securities with an aggregate market exposure of \$25 (25% short), then the gross exposure would be 125% (i.e., \$125 of investments against \$100 of NAV). As of December 31, 2017, the gross exposure of our consolidated investment portfolio was 155%. Any event that may adversely affect the value of positions we hold could significantly and negatively affect the net asset value of our investment portfolio and thus our results of operations.

***Third Point LLC's representatives' service on boards and committees may place trading restrictions on our investments.***

Third Point LLC may from time to time place its or its affiliates' representatives on creditors' committees or boards of certain companies in which our portfolio is invested. While such representation may enable Third Point LLC to enhance the sale value of our investments, it may also place trading restrictions on our investments.

As of the date hereof, representatives of Third Point LLC sat on the board of directors of Baxter International Inc., Hellenic Bank PLC and Sotheby's, whose securities are publicly traded and included in our investment portfolio.

***Our investment management agreements have limited termination provisions.***

Our investment management agreements with Third Point LLC have limited termination provisions that restrict our ability to manage our investment portfolio outside of Third Point LLC. Because the investment management agreements contain exclusivity and limited termination provisions, we are unable to use investment managers other than Third Point LLC for so long as the agreement is in effect. The amended and restated investment management agreements were entered into in June 2016 and became effective on December 22, 2016 each with an initial term of five years, subject to automatic renewal for additional successive three-year terms unless a party notifies the other parties at least six months prior to the end of a term that it wishes to terminate the investment management agreement at the end of such term. We may also terminate either investment management agreement upon the death, long-term disability or retirement of Daniel S. Loeb, or the occurrence of other circumstances in which Mr. Loeb is no longer directing the investment program of Third Point LLC.

We may also withdraw as participants under either investment management agreement prior to the expiration of the relevant investment management agreement's term at any time only "for cause", which is defined as:

- a material violation of applicable law relating to Third Point LLC's advisory business;
- Third Point LLC's fraud, gross negligence, willful misconduct or reckless disregard of its obligations under the relevant investment management agreement;
- a material breach by Third Point LLC of our investment guidelines that is not cured within a 15-day period;
- a conviction or, a plea of guilty or nolo contendere to a felony or a crime affecting the asset management business of Third Point LLC by certain senior officers of Third Point LLC;
- any act of fraud, material misappropriation, material dishonesty, embezzlement, or similar conduct against or involving us by senior officers of Third Point LLC; or
- a formal administrative or other legal proceeding before the SEC, the CFTC, FINRA, or any other U.S. or non-U.S. regulatory or self-regulatory organization against Third Point LLC or certain key personnel which would likely have a material adverse effect on us.

In addition, we may withdraw as a participant under either investment management agreement prior to the expiration of its term if our portfolio underperforms as measured against specified benchmarks.

We may not withdraw or terminate either investment management agreement on the basis of performance other than as provided above. If we become dissatisfied with the results of the investment performance of Third Point LLC as our investment manager but the contractually specified termination threshold has not been met, we will be unable to hire new investment managers until the relevant investment management agreement expires by its terms or is terminated for cause.

***Certain of our investments may have limited liquidity and lack valuation data, which could create a conflict of interest.***

Our investment guidelines provide Third Point LLC, as our investment manager, with the flexibility to invest in certain securities with limited liquidity or no public market. This lack of liquidity may adversely affect the ability of Third Point LLC to execute trade orders at desired prices. To the extent that Third Point LLC invests our investable assets in securities or instruments for which market quotations or other independent pricing sources are not readily available, under the terms of the investment management agreements the valuation of such securities and instruments for purposes of compensation to Third Point LLC will be determined by Third Point LLC, whose determination, subject to audit verification, will be conclusive and binding in the absence of bad faith or manifest error. Because the investment management agreements give Third Point LLC the power to determine the value of securities with no readily discernible market value, and because the calculation of Third Point LLC's fee is based on the value of the investment account, a conflict of interest may exist or arise.

***U.S. and global economic downturns could harm the performance of our investment portfolio, our liquidity and financial condition and our share price.***

Volatility in the United States and other securities markets may adversely affect our investment portfolio. The ability of Third Point LLC to manage our investment portfolio profitably is dependent upon conditions in the global financial markets and economic and geopolitical conditions throughout the world that are outside of our control and difficult to predict. Factors such as equity prices, equity market volatility, asset or market correlations, interest rates, counterparty risks, availability of credit, inflation rates, economic uncertainty, changes in laws or regulation (including laws relating to the financial markets generally or the taxation or regulation of the hedge fund industry), trade barriers, commodity prices, interest rates, currency exchange rates and controls, and national and international political circumstances (including governmental instability, wars, terrorist acts or security operations) can have a material impact on the value of our investment portfolio.

If Third Point LLC, as our investment manager, fails to react appropriately to difficult market, economic and geopolitical conditions, our investment portfolio could incur material losses.

***Third Point LLC's use of hedging and derivative transactions in executing trades for our account may not be successful, which could materially adversely affect our investment results.***

In managing our investment portfolio, Third Point LLC may use various financial instruments both for investment purposes and for risk management purposes in order to protect against possible changes in the market value of our investment portfolio resulting from fluctuations in the securities markets and changes in interest rates, protect unrealized gains in the value of our investment portfolio, facilitate the sale of any such investments, enhance or preserve returns, spreads or gains on any investment in our investment portfolio, hedge the interest rate or currency exchange rate on certain liabilities or assets, protect against any increase in the price of any securities Third Point LLC anticipates purchasing for our account at a later date or for any other reason that Third Point LLC, as our investment manager, deems appropriate. The success of such hedging strategy will be subject to Third Point LLC's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of such hedging strategy will also be subject to Third Point LLC's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While Third Point LLC may enter into hedging transactions for our account to seek to reduce risk, such transactions may result in a poorer overall performance for our investment portfolio than if it had not engaged in any such hedging transactions. For a variety of reasons, in managing our investment portfolio Third Point LLC may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent Third Point LLC from achieving the intended hedge or expose our investment portfolio to risk of loss.

***Our investment portfolio may from time to time include investments in mortgage-backed securities and other asset-backed securities, whose investment characteristics differ from corporate debt securities.***

Our investment portfolio may from time to time be invested in mortgage-backed securities and other asset-backed securities, including securitization of marketplace loans, whose investment characteristics differ from corporate debt securities. As of December 31, 2017, the fair value of asset-backed securities in our consolidated investment portfolio was \$225.5 million. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying mortgage loans or other assets generally may be prepaid at any time. Mortgage-backed securities and asset-backed securities may also be subject to call risk and extension risk. For example, because homeowners have the option to prepay their mortgages, the duration of a security backed by home mortgages can either shorten or lengthen.

In general, if interest rates on new mortgage loans fall sufficiently below the interest rates on existing outstanding mortgage loans, the rate of prepayment would be expected to increase. Conversely, if mortgage loan interest rates rise above the interest rates on existing outstanding mortgage loans, the rate of prepayment would be expected to decrease. In either case, a change in the prepayment rate can result in losses to investors. If our investment portfolio includes securities that are subordinated to other interests in the same mortgage pool, we may only receive payments after the pool's obligations to other investors have been satisfied. In addition, our investment portfolio may, from time to time, be invested in structures commonly known as "Re-REMICS," in which case a trust is further split between a senior tranche and a junior tranche. Third Point LLC usually buys the junior tranche for its funds and the accounts it manages in such circumstances. An unexpectedly high rate of default on mortgages held by a mortgage pool may limit substantially the pool's ability to make payments to holders of such securities, reducing the value of those securities or rendering them worthless. The risk of such defaults is generally higher in the case of mortgage pools that include "sub-prime" mortgages. Changes in laws and other regulatory developments relating to mortgage loans may impact the investments of our portfolio in mortgage-backed securities in the future.

***Our investment portfolio may include investments in securities of issuers based outside the United States, including emerging markets, which may be riskier than securities of U.S. issuers.***

Under our investment guidelines, Third Point LLC may invest in securities of issuers organized or based outside the United States that may involve heightened risks in comparison to the risks of investing in domestic securities, including unfavorable changes in currency rates and exchange control regulations, reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets, higher brokerage commissions, transfer taxes and custody fees, local economic or political instability and greater market risk in general.

In particular, investing in securities of issuers located in emerging market countries involves additional risks, such as exposure to economic structures that are generally less diverse and mature than, and to political systems that can be expected to have less stability than, those of developed countries. Other characteristics of emerging market countries that may affect investment in their markets include certain national policies that may restrict investment by foreigners in issuers or industries deemed sensitive to relevant national interests and the absence of developed legal structures governing private and foreign investments and private property. The typically small size of the markets for securities of issuers located in emerging markets and the possibility of a low or nonexistent volume of trading in those securities may also result in a lack of liquidity and in price volatility of those securities. In addition, dividend and interest payments from and capital gains in respect of certain foreign securities may be subject to foreign taxes that may or may not be reclaimable. Finally, many transactions in these markets are executed as a “total return swap” or other derivative transaction with a financial institution counterparty, and as a result our investment portfolio has counterparty credit risk with respect to such counterparty.

***Third Point LLC’s role as an engaged investor in special situation and distressed investments may subject us, Third Point Re BDA or Third Point Re USA to increased risks including the incurrence of additional legal or other expenses.***

As our investment manager, Third Point LLC may invest a portion of our investment portfolio in special situation companies. This generally involves investments in securities of companies in event-driven special situations such as acquisitions, tender offers, bankruptcies, recapitalizations, spinoffs, corporate and financial restructurings, litigation or other liability impairments, turnarounds, management changes, consolidating industries and other catalyst-oriented situations. Third Point LLC may also invest our portfolio in securities of issuers in weak financial condition, experiencing poor operating results, having substantial financial needs or negative net worth or facing special competitive or product obsolescence issues or that are involved in bankruptcy reorganization proceedings, liquidation or other corporate restructuring. Investments of this type involve substantial financial business risks that can result in substantial or total losses. Among the problems involved in assessing and making investments in troubled issuers is the fact that it frequently may be difficult to obtain information as to the condition of such issuer. The market prices of the securities of such issuers are also subject to abrupt and erratic market movements and above average price volatility and the spread between the bid and asked prices of such securities may be greater than normally expected. It may take a number of years for the market prices of such securities to reflect their intrinsic values, if at all. It is anticipated that some of such securities may not be widely traded, and that a position in such securities may be substantial in relation to the market for such securities.

As a consequence of Third Point LLC’s role as an engaged investor in special situation and distressed investments, our investment portfolio may be subject to increased risk of incurring additional legal, indemnification or other expenses, even if we are not named in any action. In distressed or special situations litigation often follows when disgruntled shareholders, creditors, and other parties seek to recover losses from poorly performing investments. The enhanced litigation risk for distressed companies is further elevated by the potential that Third Point LLC may have controlling or influential positions in the companies. Some of the claims that can be asserted against Third Point LLC as a distressed investor include: aiding and abetting breach of fiduciary duty; equitable subordination of the investor’s claims; recharacterization of the investor’s claims; and preference or fraudulent transfer claims. Third Point LLC’s use of short-selling for its funds and the accounts it manages has subjected, and may continue to subject Third Point LLC and the short sellers to increased risk of litigation. Lawsuits can be brought against short sellers of a company’s stock to discourage short selling. Among other claims, these suits may allege libel, conspiracy, and market manipulation.

***Third Point LLC’s diminution or loss of service or loss of key employees could materially adversely affect our investment results.***

We depend upon Third Point LLC, as our investment manager, to implement our investment strategy. All investment decisions with respect to our investment portfolio are made by Third Point LLC, subject to our investment guidelines, under the general supervision of Daniel S. Loeb. As a result, the success of our investment strategy depends largely upon the abilities of Mr. Loeb. While we may terminate our investment management agreements with Third Point LLC upon the death, long-term disability or retirement of Mr. Loeb, or the occurrence of other circumstances in which Mr. Loeb is no longer directing the investment program of Third Point LLC, no assurance can be given that a suitable replacement could be found.



***The compensation arrangements of Third Point LLC, as our investment manager, may create an incentive to effect transactions that are risky or speculative.***

Our investment management agreements each provide for the following two forms of compensation to be paid to Third Point LLC and TP GP:

- Third Point LLC is entitled to a management fee of 1.5% annually, charged monthly, based on net assets under management; and
- TP GP is entitled to performance compensation based on the appreciation, including unrealized appreciation, in the value of our investment portfolio equal to 20% of net profits, subject to a loss carryforward provision.

While the performance compensation arrangement provides that losses will be carried forward as an offset against net profits in subsequent periods, Third Point LLC generally will not otherwise be penalized for realized losses or decreases in the value of our portfolio. These performance compensation arrangements may create an incentive for Third Point LLC as our investment manager to engage in transactions that focus on the potential for short-term gains rather than long-term growth or that are particularly risky or speculative.

***Increased regulation or scrutiny of alternative investment advisers and certain trading methods such as short selling may affect Third Point LLC's ability to manage our investment portfolio or affect our business reputation.***

The regulatory environment for investment managers is evolving, and changes in the regulation of managers may adversely affect the ability of Third Point LLC to effect transactions in our investment portfolio that utilize leverage or to pursue its trading strategies in managing our investment portfolio. Third Point LLC is regularly involved in trading activities that involve a number of U.S. and foreign securities law regimes. Violations of any such law could result in severe restrictions on Third Point LLC's activities and, indirectly, do damage to our investment portfolio or reputation. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. Any future regulatory change could have a significant negative impact on our financial condition and results of operations.

In addition, a number of states and municipal pension plans have adopted so-called "pay-to-play" laws, regulations or policies that prohibit, restrict or require disclosure of payments to (and/or certain contacts with) state officials by individuals and entities seeking to do business with state entities, including investments by public retirement funds. The SEC also has adopted rules that, among other things, prohibit an investment adviser from providing advisory services for compensation to a government client for a period of up to two years after the adviser or certain of its executives or employees make a contribution to certain elected officials or candidates. If Third Point LLC, its employees or affiliates or any service providers acting on their behalf, including, without limitation, a placement agent, fail to comply with such pay-to-play laws, regulations or policies, such non-compliance could have an adverse effect on Third Point LLC and our investment portfolio.

As our investment manager, Third Point LLC routinely engages in short selling for our account in managing our investments. Short sale transactions have been subject to increased regulatory scrutiny, including the imposition of restrictions on short selling certain securities and reporting requirements. Third Point LLC's ability to execute a short selling strategy in managing our investment portfolio may be materially and adversely impacted by temporary or new permanent rules, interpretations, prohibitions, and restrictions adopted in response to these adverse market events. Temporary restrictions or prohibitions on short selling activity may be imposed by regulatory authorities with little or no advance notice and may impact prior and future trading activities of our investment portfolio. Additionally, the SEC, its non-U.S. counterparts, other governmental authorities or self-regulatory organizations may at any time promulgate permanent rules or interpretations consistent with such temporary restrictions or that impose additional or different permanent or temporary limitations or prohibitions. The SEC might impose different limitations or prohibitions on short selling from those imposed by various non-U.S. regulatory authorities. These different regulations, rules or interpretations might have different effective periods.

Regulatory authorities may, from time to time, impose restrictions that adversely affect our ability to borrow certain securities in connection with short sale transactions. In addition, traditional lenders of securities may be less likely to lend securities under certain market conditions. As a result, Third Point LLC may not be able to effectively pursue a short selling strategy due to a limited supply of securities available for borrowing. We may also incur additional costs in connection with short sale transactions effected in our investment portfolio, including in the event that Third Point LLC is required to enter into a borrowing arrangement for our account in advance of any short sales. Moreover, the ability to continue to borrow a security is not guaranteed and our account will be subject to strict delivery requirements. The inability to deliver securities within the required time frame may subject us to mandatory close out by the executing broker-dealer. A mandatory close out may subject us to unintended costs and losses. Certain action or inaction by third parties, such as executing broker-dealers or clearing broker-dealers, may materially impact our ability to effect short sale transactions in our investment portfolio.

***An increase in Third Point LLC's assets under management may adversely affect the returns of our investment portfolio.***

It is possible that if the amount of assets Third Point LLC manages for us, in its funds and for other accounts it manages were to increase materially, it could be more difficult for Third Point LLC to invest profitably for those accounts because of the difficulty of trading larger positions without adversely affecting prices and managing risks associated with larger positions. In addition, there can be no assurance that there will be appropriate investment opportunities to accommodate future increase in assets under management, which may force Third Point LLC to modify its investment decisions for the accounts it manages because it cannot deploy all the assets in a manner it desires. Furthermore, due to the overlap of strategies and investments across many of the portfolios managed by Third Point LLC, including its hedge funds, the accounts may be adversely affected in the event of rapid or large liquidations of investment positions held by the accounts due to a lack of liquidity resulting from large position sizes in the same investments held by the other accounts.

**Risks Relating to Insurance and Other Regulations**

***Any suspension or revocation of our subsidiaries' reinsurance licenses would materially impact our ability to do business and implement our business strategy.***

Our subsidiaries Third Point Re BDA and Third Point Re USA are licensed as reinsurers only in Bermuda and we do not plan to seek licenses in any other jurisdiction. The suspension or revocation of Third Point Re BDA or Third Point Re USA's license to do business as a reinsurance company in Bermuda for any reason would mean that we would not be able to enter into any new reinsurance contracts until the suspension ended or Third Point Re BDA or Third Point Re USA became licensed in another jurisdiction. Any such suspension or revocation of our license would negatively impact our reputation in the reinsurance marketplace and could have a material adverse effect on our results of operations.

If we become subject to insurance statutes and regulations in jurisdictions other than Bermuda or there is a change to Bermuda law or regulations or application of Bermuda law or regulations, there could be a significant and negative impact on our business.

Third Point Re BDA and Third Point Re USA, our wholly owned operating subsidiaries, are registered Bermuda Class 4 insurers. As such, they are subject to regulation and supervision in Bermuda. Bermuda insurance statutes, regulations and policies of the BMA require each of Third Point Re BDA and Third Point Re USA, among other things, to:

- maintain a minimum level of capital, surplus and liquidity;
- satisfy solvency standards;
- restrict the payment of dividends and distributions;
- deliver notification to the BMA of changes in ownership of our common shares beyond and between certain thresholds specified in the Insurance Act;
- maintain a principal office and appoint and maintain a principal representative in Bermuda; and
- provide for the performance of certain periodic examinations of Third Point Re BDA and Third Point Re USA and their financial condition.

These statutes and regulations may, in effect, restrict our ability to write reinsurance policies, to distribute funds and to pursue our investment strategy.

The process of obtaining licenses is very time consuming and costly, and we may not be able to become licensed in a jurisdiction other than Bermuda even in the event we choose to do so. The modification of the conduct of our business resulting from our becoming licensed in certain jurisdictions could significantly and negatively affect our business. In addition, our inability to comply with insurance statutes and regulations of any particular jurisdiction could significantly and adversely affect our business by limiting our ability to conduct business in that jurisdiction and by subjecting us to penalties and fines.

In addition, the BMA could revoke or suspend Third Point Re BDA or Third Point Re USA's license in certain circumstances, including circumstances in which (i) it is shown that false, misleading or inaccurate information has been supplied to the BMA by Third Point Re BDA or Third Point Re USA or on their behalf for the purposes of any provision of the Insurance Act; (ii) Third Point Re BDA and Third Point Re USA has ceased to carry on business; (iii) Third Point Re BDA or Third Point Re USA has persistently failed to pay fees due under the Insurance Act; (iv) Third Point Re BDA or Third Point Re USA has been shown to have not complied with a condition attached to its registration or with a requirement made of them under the Insurance Act or any related regulations and insurance accounting rules; (v) we are convicted of an offence against a provision of the Insurance Act or related regulations; (vi) Third Point Re BDA or Third Point Re USA is, in the opinion of the BMA, found not to have been carrying on business in accordance with sound insurance principles; or (vii) if any of the minimum criteria for registration under the Insurance Act is not or will not have been fulfilled. If the BMA were to suspend or revoke Third Point Re BDA or Third Point Re USA's licenses we could lose our exception under the U.S. Investment Company Act of 1940, as amended, or the "Investment Company Act". See "We are subject to the risk of becoming an investment company under U.S. federal securities law."

***We are subject to the risk of becoming an investment company under U.S. federal securities law.***

The Investment Company Act, regulates certain companies that invest in or trade securities. We rely on an exception under the Investment Company Act that is available to a company organized and regulated as a foreign insurance company which is engaged primarily and predominantly in the reinsurance of risks on insurance agreements. The law in this area has not been well developed and there is a lack of guidance as to the meaning of "primarily and predominantly" under the relevant exception under the Investment Company Act. For example, there is no standard for the amount of premiums that need be written relative to the level of a company's capital in order to qualify for the exception. If this exception were deemed inapplicable to us, we would have to seek to register under the Investment Company Act as an investment company, which, under the Investment Company Act, would require an order from the SEC. Our inability to obtain such an order could have a significant adverse impact on our business.

Assuming that we were permitted to register as an investment company, registered investment companies are subject to extensive, restrictive and potentially adverse regulation relating to, among other things, operating methods, management, capital structure, our ability to raise additional debt and equity securities or issue stock options or warrants (which could impact our ability to compensate key employees), financial leverage, dividends, board of director composition and transactions with affiliates. Accordingly, if we were required to register as an investment company we would not be able to operate our business as it is currently conducted, nor would we be permitted to have many of the relationships that we have with our affiliated companies. Accordingly, we likely would not be permitted to engage Third Point LLC as our investment manager, unless we obtained the board and shareholder approvals required under the Investment Company Act. If Third Point LLC were not our investment manager, we would potentially be required to liquidate our investment portfolio and we would seek to identify and retain another investment manager with a similar investment philosophy. If we could not identify or retain such an advisor, we would be required to make substantial modifications to our investment strategy. Any such changes to our investment strategy could significantly and negatively impact our investment results, financial condition and our ability to implement our business strategy.

If at any time it were established that we had been operating as an investment company in violation of the Investment Company Act, there would be a risk, among other material adverse consequences, that we could become subject to monetary penalties or injunctive relief, or both, that we could be unable to enforce contracts with third parties or that third parties could seek to obtain rescission of transactions undertaken during the period in which it was established

that we were an unregistered investment company. If, subsequently, we were not permitted or were unable to register as an investment company, it is likely that we would be forced to cease operations.

To the extent that the laws and regulations change in the future so that contracts we write are deemed not to be reinsurance contracts, we will be at greater risk of not qualifying for the Investment Company Act exception. Additionally, it is possible that our classification as an investment company would result in the suspension or revocation of our reinsurance license.

***Insurance regulators in the United States or elsewhere may review our activities and claim that we are subject to additional licensing requirements.***

We do not presently expect that we will be admitted to do business in any jurisdiction other than Bermuda. In general, Bermuda insurance statutes, regulations and the policies of the BMA are less restrictive than United States state insurance statutes and regulations. We conduct business in the United States through our indirect subsidiary, Third Point Re USA. We do not believe that our U.S.-based operations subject us to licensing requirements in any state in which we operate. However, we cannot assure you that insurance regulators in the United States or elsewhere will not review our activities and claim that we are subject to such jurisdiction's licensing requirements. In addition, we will be subject to indirect regulatory requirements imposed by jurisdictions that may limit our ability to provide reinsurance. For example, our ability to write reinsurance may be subject, in certain cases, to arrangements satisfactory to applicable regulatory bodies and proposed legislation and regulations may have the effect of imposing additional requirements upon, or restricting the market for, non-U.S. reinsurers such as us.

If in the future we were to become subject to regulation under the laws of any state in the United States or the laws of the United States or of any other country, we may consider various alternatives to our operations. If we attempt to become licensed in another jurisdiction, for instance, we may not be able to do so and the modification of the conduct of our business or the non-compliance with insurance statutes and regulations could significantly and negatively affect our business.

***Our reinsurance subsidiaries are subject to minimum capital and surplus requirements, and our failure to meet these requirements could subject us to regulatory action.***

In 2008, the BMA introduced risk-based capital standards for insurance companies as a tool to assist the BMA both in measuring risk and in determining appropriate levels of capitalization. The amended Bermuda insurance statutes and regulations pursuant to the risk-based supervisory approach required additional filings by insurers to be made to the BMA. The required statutory capital and surplus of our Bermuda-based operating subsidiaries increased under the Bermuda Solvency Capital Requirement model. While Third Point Re BDA and Third Point Re USA, as they currently operate, currently have excess capital and surplus under these new requirements, there can be no assurance that such requirement or similar regulations, in their current form or as may be amended in the future, will not have a material adverse effect on our business, financial condition or results of operations. Any failure to meet applicable requirements or minimum statutory capital requirements could subject us to further examination or corrective action by regulators, including restrictions on dividend payments, limitations on our writing of additional business or engaging in finance activities, supervision or liquidation. Further, any changes in existing risk based capital requirements or minimum statutory capital requirements may require us to increase our statutory capital levels, which we might be unable to do.

***Because we are a Bermuda company, we are subject to changes in Bermuda law and regulation that may have an adverse impact on our operations, including through the imposition of increased regulatory supervision.***

The Bermuda insurance and reinsurance regulatory framework recently has become subject to substantial change, in part in order to achieve equivalence under Solvency II, the EU regulatory regime enacted in November 2009 and that imposes new solvency and governance requirements across all EU Member States.

On November 26, 2015, the European Commission adopted a Delegated Act that recognizes Bermuda's regulatory framework for insurance and reinsurance activities of companies with their head offices in Bermuda, as well as for supervision of insurance and reinsurance groups, with the exception of captives and special purpose insurers, as being fully equivalent to regulatory standards applied to European insurance and reinsurance companies and groups in accordance with the requirements of Solvency II. The Delegated Act was confirmed on March 24, 2016 and was applied

retroactively to January 1, 2016, the date Solvency II came into effect. The EC's decision followed substantial changes to Bermuda's regulatory framework, including the adoption of the Insurance Amendment (No 2) Act 2015 in July 2015 that entered into force on January 1, 2016, the amendment to the Insurance Code of Conduct with effect from July 2015 and the adoption of revised insurance prudential rules by the BMA that entered into force on January 1, 2016. As many of these changes only came into effect on January 1, 2016, their impact on insurers and reinsurers on companies subject to Bermudian regulation, such as Third Point Re BDA and Third Point Re USA, is unclear.

While we cannot predict the future impact on our operations of changes in the laws and regulation to which we are or may become subject, any such changes could have a material adverse effect on our business, financial condition and results of operations.

***Bermuda insurance laws regarding the change of control of insurance companies may limit the acquisition of our shares.***

Under Bermuda law, for so long as we have an insurance subsidiary registered under the Insurance Act, the BMA may at any time, by written notice, object to a person holding 10% or more of our common shares if it appears to the BMA that the person is not or is no longer fit and proper to be such a holder. In such a case, the BMA may require the shareholder to reduce its holding of our common shares and direct, among other things, that such shareholder's voting rights attaching to the common shares shall not be exercisable. A person who does not comply with such a notice or direction from the BMA will be guilty of an offence. This may discourage potential acquisition proposals and may delay, deter or prevent a change of control of our company, including through transactions, and in particular unsolicited transactions, that some or all of our shareholders might consider to be desirable.

**Risks Relating to Taxation**

In addition to the risk factors discussed below, we advise you to read "Certain Tax Considerations" and to consult your own tax advisor regarding the tax consequences to you of your investment in our shares.

***We may be subject to United States federal income taxation.***

We are incorporated under the laws of Bermuda and we believe that our activities, as currently conducted (including through our U.S.-based subsidiary, Third Point Re USA) and as contemplated, will not cause us to be treated as engaging in a United States trade or business and will not cause us to be subject to current United States federal income taxation on our net income, except with respect to Third Point Re USA, which is treated as a domestic corporation for U.S. federal income tax purposes. However, because there are no definitive standards provided by the Internal Revenue Code of 1986 as amended or the Code, regulations or court decisions as to the specific activities that constitute being engaged in the conduct of a trade or business within the United States, and as any such determination is essentially factual in nature and must be made annually, we cannot assure you that the United States Internal Revenue Service, or the IRS, will not successfully assert that we are engaged in a trade or business in the United States or, if applicable under the income tax treaty between the U.S. and Bermuda (the "Bermuda Treaty"), engaged in a trade or business in the United States through a permanent establishment, and thus are subject to current United States federal income taxation. If we were deemed to be engaged in a trade or business in the United States (and, if applicable under the Bermuda Treaty, were deemed to be so engaged through a permanent establishment), Third Point Re BDA generally would become subject to United States federal income tax on its income "effectively connected" (or treated as effectively connected) with the U.S. trade or business, and would become subject to the "branch profits" tax on its earnings and profits that are both effectively connected with the U.S. trade or business and deemed repatriated out of the United States. Any such federal tax liability could materially and adversely affect our operations and financial condition.

***United States persons who own our shares may be subject to United States federal income taxation on our undistributed earnings and may recognize ordinary income upon disposition of shares.***

*Passive Foreign Investment Company ("PFIC").* Significant potential adverse U.S. federal income tax consequences generally apply to any United States person who owns shares in a PFIC. In general, either we and/or Third Point Re BDA would be a PFIC for a taxable year if 75% or more of its income constitutes "passive income" or 50% or more of its assets were held to produce "passive income." Passive income generally includes interest, dividends and other investment income, but does not include income derived in the active conduct of an insurance business by a corporation

predominantly engaged in an insurance business. This exception for insurance companies is intended to ensure that a bona fide insurance company's income is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. However, there is very little authority as to what constitutes the active conduct of an insurance business for purposes of the PFIC rules. The recently enacted "Tax Cuts and Jobs Act," P.L. 115-97 (the "TCJA"), modifies the insurance exception to apply to a company only if (i) the company would be taxed as an insurance company were it a U.S. corporation and (ii) either (A) loss and loss adjustment expenses and certain reserves constitute more than 25% of the company's gross assets for the relevant year or (B) loss and loss adjustments expenses and certain reserves constitute more than 10% of the company's gross assets for the relevant year and, based on the applicable facts and circumstances, the company is predominantly engaged in an insurance business and the failure of the company to satisfy the preceding 25% test is due solely to run-off related or rating-related circumstances involving the insurance business. By adding an additional "bright line" test to the existing PFIC requirements, the TCJA significantly increases the risk that a non-US insurer will be treated as a PFIC, even if it actively conducts insurance operations. There remain significant uncertainties as to the interpretation of the PFIC active insurance exception given the lack of final IRS regulations. Consequently, although we intend to structure our assets and operations, as practicable, in a manner to avoid being classified as a PFIC for 2018, there can be no assurance that we will be able to satisfy the requirements of the TCJA.

The IRS has notified taxpayers in IRS Notice 2003-34 that it intends to scrutinize the activities of certain insurance companies located outside of the United States, including reinsurance companies that invest a significant portion of their assets in alternative investment strategies, to determine whether such companies qualify for the active insurance company exception in the PFIC rules. The IRS recently proposed regulations concerning the active insurance company exception. The proposed regulations provide that the active conduct of an insurance business must include the performance of substantial managerial and operational services by an insurance company's own employees and officers. The activities of independent contractors and employees of affiliates are not sufficient to satisfy this requirement. The proposed regulations also clarify that income from investment assets held by an insurance company to meet its obligations under insurance and annuity contracts will not be treated as passive income for PFIC purposes. However, the IRS did not propose a specific method for determining the portion of an insurance company's assets that are held to meet obligations under insurance and annuity contracts, and solicited comments on appropriate approaches. At this time it is unclear whether final regulations will include a specific methodology and how any such methodology would apply to us. The proposed regulations will be effective when issued in final form.

We believe that our financial reserves are consistent with industry standards and are not in excess of the reasonable needs of our insurance business, that we are actively engaged in insurance activities that involve sufficient transfer of risk, and that our employees and officers provide substantial managerial and operational services. However, we cannot assure you the IRS will agree with our position and will not successfully assert that we do not qualify for the insurance exception, and, as discussed above, no assurance can be given that we will be able to operate in a manner to satisfy the additional requirements imposed by the TCJA in any given year. Moreover, our expectation with respect to any taxable year is based on the amount of risk that we expect to underwrite and the amount of insurance-related liabilities we expect to incur during that year. If we are unable to underwrite a sufficient amount of risk or have sufficient insurance-related liabilities for any taxable year, we and/or Third Point Re BDA might be treated as a PFIC. Furthermore, in certain circumstances, we may seek to manage the volatility of our reinsurance results by writing policies that contain certain contractual terms and conditions (such as loss ratio caps), which may cause the IRS to assert that such policies lack sufficient risk transfer to constitute insurance for United States federal income tax purposes, increasing the risk that we and/or Third Point Re BDA may be treated as a PFIC. Counsel to the Company and its subsidiaries (the "Group") have never provided an opinion regarding the Group's PFIC status due to the absence of applicable authority regarding the active insurance company exception and the dependence of the Group's PFIC status on the actual operational results and other relevant facts for each taxable year. Readers are urged to consult their own tax advisors to assess their tolerance of this risk.

If a "United States person" holds our shares as "capital assets" within the meaning of section 1221 of the Code during any taxable year in which we and/or Third Point Re BDA are treated as PFICs, such shares will generally be treated as stock in a PFIC for all subsequent years. Certain elections designed to mitigate the adverse consequences of owning shares in a PFIC, including a "Protective QEF Election," may be available. If you are a United States person, we advise you to consult your own tax advisor concerning the potential tax consequences to you under the PFIC rules, the advisability of making one of these elections and to assess your tolerance of this risk.

*Controlled Foreign Corporations ("CFC").* United States persons who, directly or indirectly or through attribution rules, own 10% or more of the voting power or, under the TCJA, the value, of our shares, which we refer to as United States 10% shareholders, may be subject to the CFC rules. Under the CFC rules, each United States 10% shareholder must annually include its pro rata share of the CFC's "subpart F income," even if no distributions are made. In general (subject to the special rules applicable to "related person insurance income" described below), a foreign insurance company will be treated as a CFC only if United States 10% shareholders collectively own more than 25% of the total combined voting power or total value of the company's shares at any time during any year. If you are a United States person we strongly urge you to consult your own tax advisor concerning the controlled foreign corporation rules.

*Related Person Insurance Income.* If (a) our gross income attributable to insurance or reinsurance policies pursuant to which the direct or indirect insureds or our direct or indirect United States shareholders or persons related to such United States shareholders equals or exceeds 20% of our gross insurance income in any taxable year; and (b) direct or indirect insureds and persons related to such insureds own directly or indirectly 20% or more of the voting power or value of our shares, a United States person who owns any shares directly or indirectly on the last day of the taxable year would most likely be required to include its allocable share of our related person insurance income for the taxable year in its income, even if no distributions are made. We do not expect that it is likely that either or both of the 20% gross insurance income threshold or the 20% direct or indirect ownership threshold will be met. However, we cannot assure you that this will be the case. Consequently, we cannot assure you that a person who is a direct or indirect United States shareholder will not be required to include amounts in its income in respect of related person insurance income in any taxable year.

*Dispositions of Our Shares.* If a United States shareholder is treated as disposing of shares in a CFC of which it is a United States 10% shareholder, or of shares in a foreign insurance corporation that has related person insurance income and in which United States persons collectively own 25% or more of the voting power or value of the company's share capital, any gain from the disposition will generally be treated as a dividend to the extent of the United States shareholder's portion of the corporation's undistributed earnings and profits, as the case may be, that were accumulated during the period that the U.S. shareholder owned the shares. In addition, the shareholder will be required to comply with certain reporting requirements, regardless of the amount of shares owned by the direct or indirect United States shareholder. Although not free from doubt, we believe it would be reasonable for a United States person to take the position that these rules should not apply to dispositions of our shares because we should not have any United States 10% shareholders and will not be directly engaged in the insurance business. We cannot assure you, however, that the IRS will interpret the proposed regulations potentially applicable to such dispositions in this manner or that the proposed regulations will not be promulgated in final form in a manner that would cause these rules to apply to dispositions of our shares.

***United States tax-exempt organizations who own our shares may recognize unrelated business taxable income.***

A United States tax-exempt organization may recognize unrelated business taxable income if a portion of our subpart F insurance income is allocated to it. In general, subpart F insurance income will be allocated to a tax-exempt organization owning (or treated as owning) our shares if we are a CFC as discussed above and it is a United States 10% shareholder or we earn related person insurance income and the exceptions described above do not apply. We cannot assure you that United States persons holding our shares (directly or indirectly) will not be allocated subpart F insurance income. United States tax-exempt organizations should consult their own tax advisors regarding the risk of recognizing unrelated business taxable income as a result of the ownership of our shares.

***Change in United States tax laws may be retroactive and could subject us to increased taxes and/or United States persons who own our shares to United States income taxation on our undistributed earnings and could adversely affect our operations and financial condition.***

New tax laws and regulations and changes in existing tax laws and regulations are continuously being enacted that could result in increased tax expenditures in the future.

The tax laws and interpretations thereof regarding whether a company is engaged in a United States trade or business, is a CFC, has related party insurance income or is a PFIC are subject to change, possibly on a retroactive basis. The regulations regarding the application of the passive foreign investment company rules to an insurance company and regarding related party insurance income are in proposed form. New regulations or pronouncements interpreting or

clarifying such rules may be forthcoming from the IRS. We are not able to predict if, when or in what form such guidance will be provided and whether such guidance will have a retroactive effect.

***Our affiliate transactions may be subject to the base erosion and anti-abuse tax (“BEAT”).***

The TCJA imposes a minimum tax (the “BEAT”) on certain payments by United States corporations to a related foreign corporation, which could impose material incremental taxes on reinsurance transactions between Third Point Re USA and Third Point Re BDA, unless Third Point Re USA qualifies for exceptions for taxpayers whose gross receipts or affiliate payments fall under specified thresholds. Although we presently expect that Third Point Re USA would qualify for one of the exceptions, there can be no assurance that the BEAT will not apply to Third Point Re USA.

***We may become subject to U.S. withholding and information reporting requirements under the Foreign Account Tax Compliance Act (“FATCA”) provisions.***

The Foreign Account Tax Compliance provisions of the Code (“FATCA”) generally impose a 30% withholding tax regime with respect to (i) certain U.S. source income (including interest and dividends) and gross proceeds from any sale or other disposition after December 31, 2018, of property that can produce U.S. source interest or dividends (“withholdable payments”) and (ii) “foreign passthru payments” made by foreign financial institutions (“FFIs”) after December 31, 2018 (or, if later, the date on which the final U.S. Treasury Regulations that define (foreign passthru payments are published).

On December 19, 2013, the Bermuda Government entered into a “Model 2” intergovernmental agreement (“IGA”) with the United States to implement FATCA. If we and/or Third Point Re BDA are treated as FFIs for the purposes of FATCA, under the Model 2 IGA, we and/or Third Point Re BDA will be directed to register with the IRS and required to comply with the requirements of FATCA, including due diligence, reporting and withholding. Assuming registration and compliance with the terms of an agreement with the IRS (an “FFI Agreement”) pursuant to a Model 2 IGA, an FFI would be treated as FATCA compliant and not subject to withholding. An FFI that satisfies the eligibility, information reporting and other requirements of the IGA will not be subject to the regular FATCA reporting and withholding obligations discussed below.

If the Company and/or Third Point Re BDA are treated as FFIs for purposes of FATCA, withholdable payments and foreign passthru payments made to the Company and/or Third Point Re BDA will be subject to a 30% withholding tax unless an FFI Agreement is in effect, pursuant to which the Company and/or Third Point Re BDA would be required to provide information regarding its U.S. direct or indirect owners and to comply with other reporting, verification, due diligence and other procedures established by the IRS, including a requirement to seek waivers of non-U.S. laws that would prevent the reporting of such information. The IRS may terminate the FFI Agreement if the IRS notifies the Company and/or Third Point Re BDA that it is out of compliance with the FFI Agreement and the Company and/or Third Point Re BDA does not remediate the compliance failure. Even if the Company and/or Third Point Re BDA are subject to an FFI Agreement, distributions to an investor that are treated as foreign passthru payments generally will be subject to a 30% withholding tax (a) if the investor fails to provide information or take other actions required for the the Company and/or Third Point Re BDA to comply with the FFI Agreement including, in the case of a non-U.S. investor, providing information regarding certain U.S. direct and indirect owners of the investor (and, in certain circumstances, obtaining waivers of non-U.S. law to permit such reporting), or (b) if the investor is an FFI, unless the investor (i) is subject to an FFI Agreement, (ii) establishes that an exemption applies or (iii) is required to comply with FATCA under an applicable IGA.

Under the regulations implementing FATCA, a foreign insurance company (or foreign holding company of an insurance company) that issues or is obligated to make payments with respect to an account is a foreign financial institution. For this purpose, insurance contracts treated as having “cash value” and annuity contracts issued or maintained by a financial institution are considered accounts, and certain term life insurance contracts are not considered accounts. Insurance companies that issue only property and casualty insurance contracts, or that only issue life insurance contracts lacking cash value (or that provide for limited cash value) generally would not be considered FFIs under the final regulations. However, a holding company may be treated as an FFI if it is formed in connection with or availed of by a collective investment vehicle, mutual fund, exchange traded fund, hedge fund, venture capital fund, leveraged buyout fund, or any similar investment vehicle established with an investment strategy of investing, reinvesting, or trading in financial assets. Moreover, a company may be treated as an FFI if its gross income is primarily attributable to investing, reinvesting,



or trading in financial assets and the entity is managed by an FFI, or the entity functions or holds itself out as an investment vehicle established with an investment strategy of investing, reinvesting, or trading in financial assets. Even if the Company and/or Third Point Re BDA are not treated as FFIs, then depending on whether the shares of the Company are treated as “regularly traded on one or more established securities markets” under the FATCA rules and whether the income and assets of Third Point Re BDA meet the requirements for the treatment of Third Point Re BDA as an “active NFFE,” withholdable payments to the Company and/or Third Point Re BDA may be subject to a 30% withholding tax unless the Company and/or Third Point Re BDA provide information regarding its U.S. direct or indirect owners.

There can be no certainty as to whether the Company and/or Third Point Re BDA will be subject to the requirements imposed on FFIs under FACTA. We will use reasonable efforts to avoid the imposition of a withholding tax under FACTA, which may include the entering into of an FFI Agreement.

### **Risks Relating to Our Common Shares**

***Future sales of shares by existing shareholders could cause our share price to decline, even if our business is performing well.***

Sales of substantial amounts of our common shares in the public market could occur at any time. These sales, or the perception that these sales could occur, could cause the market price of our common shares to decline.

A significant number of our common shares are currently restricted as a result of applicable securities laws, but are eligible for sale subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144. As of December 31, 2017, we also had reserved for issuance common shares underlying certain warrants to purchase, in the aggregate, up to 4,651,163 common shares. In addition, certain of our significant shareholders may distribute shares that they hold to their investors who themselves may then sell into the public market. Such sales may not be subject to the volume, manner of sale, holding period and other limitations of Rule 144. As resale restrictions end, the market price of our common shares could decline if the holders of those shares sell them or are perceived by the market as intending to sell them.

Certain existing holders of our common shares also have registration rights, subject to some conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other shareholders in the future. In the event that we register the common shares for the holders of registration rights, they can be freely sold in the public market upon issuance, subject to certain limitations applicable to affiliates.

As of December 31, 2017, a total of 22,252,206 common shares were reserved for issuance under our current share incentive plans and in connection with restricted share award agreements entered into between us and certain of our employees and directors. As of December 31, 2017, there were share options outstanding (subject to vesting) for 8,888,053 common shares. We have registered on a Form S-8 registration statement these shares and all common shares that we may in future issue under our equity compensation plans. As a result, these shares can be freely sold in the public market upon issuance, subject to certain limitations applicable to affiliates.

In the future, we may issue additional common shares or other equity or debt securities convertible into common shares in connection with a financing, acquisition, litigation settlement or employee arrangement or otherwise. Any of these issuances could result in substantial dilution to our existing shareholders and could cause the trading price of our common shares to decline.

***If securities analysts or industry analysts downgrade our common shares, publish negative research or reports or fail to publish reports about our business, our share price and trading volume could decline.***

The trading market for our common shares is influenced by the research and reports that industry or securities analysts publish about us, our business and our market. If one or more analysts adversely changes their recommendation regarding our stock or our competitors’ stock, our share price would likely decline. If one or more analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets which in turn could cause our share price or trading volume to decline.

***If the ownership of our common shares continues to be concentrated, it could prevent you and other shareholders from influencing significant corporate decisions.***

Third Point Re was incorporated on October 6, 2011. On December 22, 2011, KIA TP Holdings, L.P. and KEP TP Holdings, L.P., which are affiliates of Kelso & Company (collectively, “Kelso”) and Pine Brook LVR, L.P., an affiliate of Pine Brook Road Partners, LLC (collectively, “Pine Brook”, and Pine Brook and together with Kelso, the “Lead Investors” and each individually, a “Lead Investor”), Dowling Capital Partners I, L.P., an affiliate of Dowling Capital Management, LLC (collectively, “Dowling”), P RE Opportunities Ltd. (“PROL”), Third Point LLC, Daniel S. Loeb and affiliates associated with Mr. Loeb (collectively, the “Loeb Entities”) and John R. Berger (collectively, the “Founders”), together with certain members of management, committed \$533.0 million to capitalize Third Point Re. As of December 31, 2017, Kelso, the Loeb Entities and the Company’s directors and named executive officers, as defined in the proxy statement, beneficially own approximately 11.9%, 9.4% and 7.1% of our issued and outstanding common shares, respectively, on an as converted basis after giving effect to the issuance of vested warrants and options representing the right to purchase 13,399,684 common shares. As a result, Kelso, the Loeb Entities, our directors and named executive officers could exercise influence over matters requiring shareholder approval, including approval of significant corporate transactions, which may reduce the market price of our common shares.

The interests of our existing shareholders may conflict with the interests of our other shareholders. Our Board of Directors has adopted corporate governance guidelines that, among other things, addressed potential conflicts between a director’s interests and our interests. In addition, we have adopted a Code of Business Conduct and Ethics that, among other things, required our employees to avoid actions or relationships that might conflict or appear to conflict with their job responsibilities or our interests and to disclose their outside activities, financial interests or relationships that may present a possible conflict of interest or the appearance of a conflict to our general counsel. These corporate governance guidelines and Code of Business Conduct and Ethics will not, by themselves, prohibit transactions with our Founders.

***The market price of our common shares may fluctuate significantly.***

The market price of our common shares may fluctuate significantly. Among the factors that could affect our share price are:

- industry or general market conditions;
- domestic and international economic factors unrelated to our performance;
- changes in our clients’ needs;
- new regulatory pronouncements and changes in regulatory guidelines;
- lawsuits, enforcement actions and other claims by third parties or governmental authorities;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in securities analysts’ estimates of our financial performance or lack of research and reports by industry analysts;
- action by institutional shareholders or other large shareholders (including the Founders), including future sales;
- speculation in the press or investment community;
- investor perception of us and our industry;
- changes in market valuations or earnings of similar companies;
- announcements by us or our competitors of significant contracts, acquisitions or strategic partnerships;
- any future sales of our common shares or other securities; and
- additions or departures of key personnel.

The stock markets have experienced volatility in recent years that has been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common shares. In the past, following periods of volatility in the market price of a company’s securities, class action litigation has often been instituted against such company. Any litigation of this type brought against us could result in substantial costs and a diversion of management’s attention and resources, which would harm our business, operating results and financial condition.

***We do not intend to pay dividends on our common shares and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common shares.***

We do not intend to declare and pay dividends on our share capital for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common shares for the foreseeable future and the success of an investment in our common shares will depend upon any future appreciation in their value. There is no guarantee that our common shares will appreciate in value or even maintain the price at which our shareholders have purchased their shares.

***We may repurchase our common shares without our shareholders' consent.***

Under our bye-laws and subject to Bermuda law, we have the option, but not the obligation, to require a shareholder to sell to us at fair market value the minimum number of common shares that is necessary to avoid or cure any adverse tax consequences or materially adverse legal or regulatory treatment to us, our subsidiaries or our shareholders if our Board of Directors reasonably determines, in good faith, that failure to exercise our option would result in such adverse consequences or treatment.

***Holders of our shares may have difficulty effecting service of process on us or enforcing judgments against us in the United States.***

We are incorporated pursuant to the laws of Bermuda and our business is based in Bermuda. In addition, certain of our directors and officers reside outside the United States, and all or a substantial portion of our assets are located in jurisdictions outside the United States. As such, we have been advised that there is doubt as to whether:

- a holder of our shares would be able to enforce, in the courts of Bermuda, judgments of United States courts against persons who reside in Bermuda based upon the civil liability provisions of the United States federal securities laws;
- a holder of our shares would be able to enforce, in the courts of Bermuda, judgments of United States courts based upon the civil liability provisions of the United States federal securities laws;
- a holder of our shares would be able to bring an original action in the Bermuda courts to enforce liabilities against us or our directors and officers who reside outside the United States based solely upon United States federal securities laws.

Further, we have been advised that there is no treaty in effect between the United States and Bermuda providing for the enforcement of judgments of United States courts, and there are grounds upon which Bermuda courts may not enforce judgments of United States courts. Because judgments of United States courts are not automatically enforceable in Bermuda, it may be difficult for you to recover against us based upon such judgments.

***U.S. persons who own our shares may have more difficulty in protecting their interests than U.S. persons who are shareholders of a U.S. corporation.***

The Companies Act, which applies to us, differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. Set forth below is a summary of certain significant provisions of the Companies Act and our bye-laws which differ in certain respects from provisions of Delaware corporate law. Because the following statements are summaries, they do not discuss all aspects of Bermuda law that may be relevant to us and our shareholders.

*Interested Directors:* Bermuda law provides that we cannot void any transaction we enter into in which a director has an interest, nor can such director be liable to us for any profit realized pursuant to such transaction, provided the nature of the interest is disclosed at the first opportunity at a meeting of directors, or in writing, to the directors. Under Delaware law such transaction would not be voidable if:

- the material facts as to such interested director's relationship or interests were disclosed or were known to the Board of Directors and the Board of Directors had in good faith authorized the transaction by the affirmative vote of a majority of the disinterested directors;
- such material facts were disclosed or were known to the shareholders entitled to vote on such transaction and the transaction were specifically approved in good faith by vote of the majority of shares entitled to vote thereon; or

- the transaction were fair as to the corporation as of the time it was authorized, approved or ratified. Under Delaware law, the interested director could be held liable for a transaction in which the director derived an improper personal benefit.

*Business Combinations with Large Shareholders or Affiliates:* As a Bermuda company, we may enter into business combinations with our large shareholders or affiliates, including mergers, asset sales and other transactions in which a large shareholder or affiliate receives, or could receive, a financial benefit that is greater than that received, or to be received, by other shareholders, without obtaining prior approval from our Board of Directors or from our shareholders. If we were a Delaware corporation, we would need prior approval from our Board of Directors or a super-majority of our shareholders to enter into a business combination with an interested shareholder for a period of three years from the time the person became an interested shareholder, unless we opted out of the relevant Delaware statute. Our by-laws include a provision restricting business combinations with interested shareholders consistent with the corresponding Delaware statute.

*Shareholders' Suits:* The rights of shareholders under Bermuda law are not as extensive as the rights of shareholders in many United States jurisdictions. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. However, the Bermuda courts ordinarily would be expected to follow English case law precedent, which would permit a shareholder to commence an action in the name of the company to remedy a wrong done to the company where an act is alleged to be beyond the corporate power of the company, is illegal or would result in the violation of our memorandum of association or by-laws. Furthermore, a court would consider acts that are alleged to constitute a fraud against the minority shareholders or where an act requires the approval of a greater percentage of our shareholders than actually approved it. The winning party in such an action generally would be able to recover a portion of attorneys' fees incurred in connection with such action. Our by-laws provide that shareholders waive all claims or rights of action that they might have, individually or in the right of the company, against any director or officer for any act or failure to act in the performance of such director's or officer's duties, except with respect to any fraud or dishonesty of such director or officer. Class actions and derivative actions generally are available to shareholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions, the court has discretion to permit the winning party to recover attorneys' fees incurred in connection with such action.

*Indemnification of Directors:* We have entered into indemnification agreements with our directors. The indemnification agreements provide that we will indemnify our directors or officers or any person appointed to any committee by the Board of Directors acting in their capacity as such in relation to any of our affairs for any loss arising or liability attaching to them by virtue of any rule of law in respect of any negligence, default, breach of duty or breach of trust of which such person may be guilty in relation to the company other than in respect of his own fraud or dishonesty. Under Delaware law, a corporation may indemnify a director or officer of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action, suit or proceeding by reason of such position if such director or officer acted in good faith and in a manner he or she reasonably believed to be in or not be opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, such director or officer had no reasonable cause to believe his or her conduct was unlawful.

***Provisions in our by-laws may reduce or increase the voting rights of our shares.***

In general, and except as provided under our by-laws and as described below, the common shareholders have one vote for each common share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders. However, if, and so long as, the shares of a shareholder are treated as "controlled shares" (as determined pursuant to sections 957 and 958 of the Code of any United States person (that owns shares directly or indirectly through non-U.S. entities) and such controlled shares constitute 9.5% or more of the votes conferred by our issued shares, the voting rights with respect to the controlled shares owned by such United States person will be limited, in the aggregate, to a voting power of less than 9.5%, under a formula specified in our by-laws. The formula is applied repeatedly until the voting power of all 9.5% U.S. shareholders has been reduced to less than 9.5%. In addition, our Board of Directors may limit a shareholder's voting rights when it deems it appropriate to do so to (i) avoid the existence of any 9.5% U.S. shareholder; and (ii) avoid certain material adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any direct or indirect shareholder or its affiliates. "Controlled shares" include, among other things, all shares that a United States person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the

Code). The amount of any reduction of votes that occurs by operation of the above limitations will generally be reallocated proportionately among our other shareholders whose shares were not “controlled shares” of the 9.5% U.S. shareholder so long as such reallocation does not cause any person to become a 9.5% U.S. Shareholder.

Under these provisions, certain shareholders may have their voting rights limited, while other shareholders may have voting rights in excess of one vote per share. Moreover, these provisions could have the effect of reducing the votes of certain shareholders who would not otherwise be subject to the 9.5% limitation by virtue of their direct share ownership.

We are authorized under our bye-laws to request information from any shareholder for the purpose of determining whether a shareholder’s voting rights are to be reallocated under the bye-laws. If any holder fails to respond to this request or submits incomplete or inaccurate information, we may, in our sole discretion, eliminate the shareholder’s voting rights. Any shareholder must give notice to us within ten days following the date it owns 9.5% of our common shares.

***Our bye-laws contain provisions that could discourage takeovers and business combinations that our shareholders might consider in their best interests.***

Our bye-laws include certain provisions that could have the effect of delaying, deterring, preventing or rendering more difficult a change in control of us that our shareholders might consider in their best interests.

For example, our bye-laws:

- provide the right of shareholders to act by majority written consent for so long as the Lead Investors and the Loeb Entities collectively hold at least 35% of our issued and outstanding common shares;
- establish a classified Board of Directors;
- require advance notice of shareholders’ proposals in connection with annual general meetings;
- authorize our board to issue “blank cheque” preferred shares;
- prohibit us from engaging in a business combination with a person who acquires at least 15% of our common shares for a period of three years from the date such person acquired such common shares unless board and shareholder approval is obtained prior to the acquisition;
- require that directors only be removed from office for cause by majority shareholder vote once the Lead Investors and the Loeb Entities cease to collectively hold at least 35% of our issued and outstanding shares;
- allow each of Kelso and Pine Brook to appoint one director for so long as they hold not less than 25% of the number of shares respectively held as of December 22, 2011;
- require a supermajority vote of shareholders to effect certain amendments to our memorandum of association and bye-laws; and
- provide a consent right on the part of Kelso, Pine Brook and Daniel S. Loeb to any amendments to our bye-laws or memorandum of association which would have a material adverse effect on their rights for so long as they hold not less than 25% of the number of shares respectively held as of December 22, 2011.

Any such provision could prevent our shareholders from receiving the benefit from any premium to the market price of our common shares offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of any of these provisions could adversely affect the prevailing market price of our common shares if they were viewed as discouraging takeover attempts in the future.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

The Company leases office space in Pembroke, Bermuda where the Company’s principal executive office is located. Additionally, the Company leases office space in Summit, New Jersey for Third Point Re USA’s operations. We renew and enter into new leases in the ordinary course of business. For further discussion of our leasing commitments at

December 31, 2017, refer to Note 21 - “Commitments and Contingencies” to the accompanying consolidated financial statements.

### Item 3. Legal Proceedings

We are not currently involved in any litigation or arbitration. 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.

### Item 4. Mine Safety Disclosures

Not applicable.

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

#### Market Information

Our common shares are listed on the NYSE under the symbol “TPRE”. On February 27, 2018, the latest practicable date, the last reported sale price of our common shares was \$14.05 per share and there were 53 holders of record of our common shares. This number does not include shareholders for whom our shares were held in “street” name.

The following table sets forth, for the periods indicated, the high and low sales price per share of our common shares as reported by the NYSE:

|             | 2017     |          | 2016     |          |
|-------------|----------|----------|----------|----------|
|             | High     | Low      | High     | Low      |
| 1st Quarter | \$ 12.55 | \$ 11.10 | \$ 12.95 | \$ 10.48 |
| 2nd Quarter | \$ 14.45 | \$ 11.50 | \$ 11.96 | \$ 10.81 |
| 3rd Quarter | \$ 15.65 | \$ 13.70 | \$ 13.02 | \$ 11.48 |
| 4th Quarter | \$ 17.00 | \$ 14.65 | \$ 12.65 | \$ 11.30 |

#### Dividends

We do not currently expect to declare or pay dividends on our common shares for the foreseeable future. Instead, we intend to retain earnings to finance the growth and development of our business and for working capital and general corporate purposes. Any payment of dividends will be at the discretion of our Board of Directors and will depend upon various factors then existing, including earnings, financial condition, results of operations, capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends, restrictions imposed by applicable law, general business conditions and other factors that our Board of Directors may deem relevant. In addition, under the Companies Act, we may not declare or pay a dividend if there are reasonable grounds for believing that we are, or would after the payment be, unable to pay our liabilities as they become due or that the realized value of our assets would thereafter be less than our liabilities.

## Equity Compensation Plans

The following table presents information concerning the securities authorized for issuance pursuant to our equity compensation plans as of December 31, 2017:

|                                                        | Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(1)</sup> | Weighted-average exercise price of outstanding options, warrants and rights <sup>(2)</sup> | Number of securities available for future issuance under equity compensation plans (excluding securities reflected in Column 1) <sup>(3)</sup> |
|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity compensation plans approved by shareholders     | 8,888,053                                                                                                  | \$ 13.43                                                                                   | 9,330,000                                                                                                                                      |
| Equity compensation plans not approved by shareholders | —                                                                                                          | n/a                                                                                        | —                                                                                                                                              |
| <b>Total</b>                                           | <b>8,888,053</b>                                                                                           | <b>\$ 13.43</b>                                                                            | <b>9,330,000</b>                                                                                                                               |

(1) Represents the number of shares associated with options outstanding as of December 31, 2017.

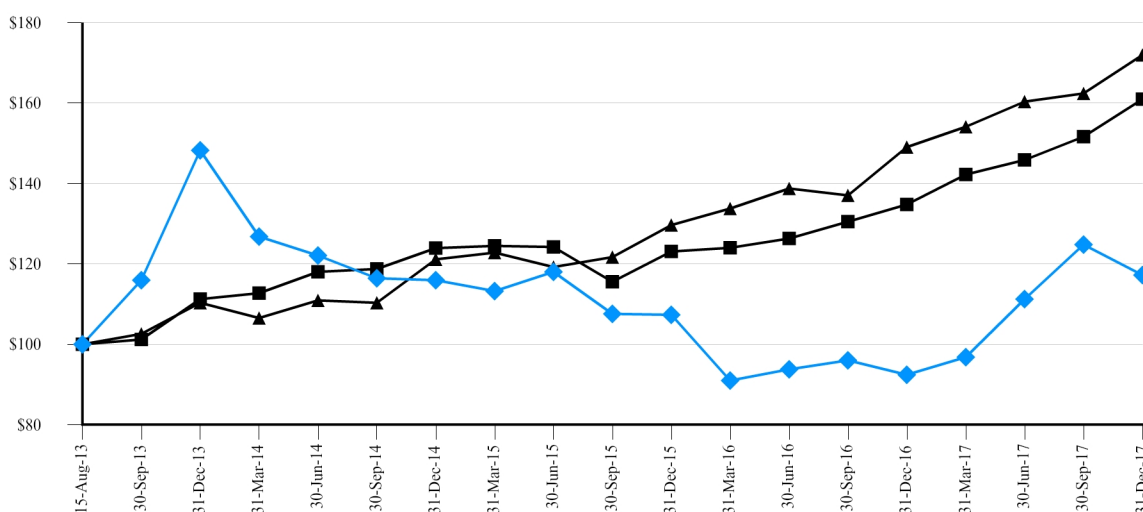
(2) Represents the weighted average exercise price of options disclosed.

(3) Represents the number of shares remaining available for issuance with respect to future awards under our Omnibus Equity Incentive Plan.

## Performance

The following graph compares the cumulative total shareholder return on our common shares from the date of the Company's initial public offering on August 15th, 2013 through to December 31, 2017 to the cumulative total return of (1) S&P 500 Composite Stock Index ("S&P 500") and (2) the Dow Jones Property & Casualty Insurance Index ("Dow Jones P&C"). The share price performance presented below is not necessarily indicative of future results.

**Cummulative Total Shareholder Return**



◆TPRE  
■S&P 500  
▲Dow Jones P&C

1. The above graph assumes that the value of the investment was \$100 on August 15, 2013.

2. This graph is not “soliciting material,” is not deemed filed with the SEC and is not to be incorporated by reference in any filing by us under the Securities Act of 1933 or the Securities and Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

### **Issuer Purchases of Equity Securities**

On May 4, 2016, the Company’s Board of Directors authorized a 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 is authorized to 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.

We did not make any repurchases of common shares during the three months ended December 31, 2017.

During the year ended December 31, 2017, the Company repurchased 3,300,152 (December 31, 2016 - 644,768) of its common shares in the open market for an aggregate cost of \$40.9 million (December 31, 2016 - \$7.4 million) at a weighted average cost, including commissions, of \$12.38 (December 31, 2016 - \$11.46) per share. Common shares repurchased by the Company were not canceled and are classified as treasury shares.

As of December 31, 2017, the Company was authorized to repurchase up to an aggregate of \$51.7 million of additional common shares under its share repurchase program.



## Item 6. Selected Financial Data.

The following tables set forth certain of our selected financial data as of and for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 and has been derived from our audited consolidated financial statements. Our historical results are not necessarily indicative of the results that may be expected for any future period. The selected financial data should be read in conjunction with Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Annual Report.

|                                                                                    | 2017                                               | 2016       | 2015        | 2014       | 2013       |
|------------------------------------------------------------------------------------|----------------------------------------------------|------------|-------------|------------|------------|
|                                                                                    | (\$ in thousands, except share and per share data) |            |             |            |            |
| <b>Selected Statement of Income (Loss) Data:</b>                                   |                                                    |            |             |            |            |
| Net premiums written                                                               | \$ 639,145                                         | \$ 615,049 | \$ 700,538  | \$ 613,150 | \$ 391,962 |
| Net premiums earned                                                                | 547,058                                            | 590,190    | 602,824     | 444,532    | 220,667    |
| Net investment income (loss)                                                       | 391,953                                            | 98,825     | (28,074)    | 85,582     | 258,125    |
| Loss and loss adjustment expenses incurred, net                                    | 370,058                                            | 395,932    | 415,191     | 283,147    | 139,812    |
| Acquisition costs, net                                                             | 188,904                                            | 222,150    | 191,216     | 137,206    | 67,944     |
| General and administrative expenses                                                | 53,103                                             | 39,367     | 46,033      | 40,008     | 33,036     |
| Other expenses                                                                     | 12,674                                             | 8,387      | 8,614       | 7,395      | 4,922      |
| Interest expense                                                                   | 8,225                                              | 8,231      | 7,236       | —          | —          |
| Foreign exchange gains (losses)                                                    | (12,300)                                           | 19,521     | 3,196       | —          | —          |
| Income tax (expense) benefit                                                       | (11,976)                                           | (5,593)    | 2,905       | (5,648)    | —          |
| Net income (loss)                                                                  | 281,771                                            | 28,876     | (87,439)    | 56,710     | 233,078    |
| Net income (loss) available to Third Point Re common shareholders                  | \$ 277,798                                         | \$ 27,635  | \$ (87,390) | \$ 50,395  | \$ 227,311 |
| Basic earnings (loss) per share available to Third Point Re common shareholders    | \$ 2.71                                            | \$ 0.26    | \$ (0.84)   | \$ 0.48    | \$ 2.58    |
| Diluted earnings (loss) per share available to Third Point Re common shareholders  | \$ 2.64                                            | \$ 0.26    | \$ (0.84)   | \$ 0.47    | \$ 2.54    |
| <b>Property and Casualty Reinsurance Segment - Selected Ratios <sup>(1)</sup>:</b> |                                                    |            |             |            |            |
| Loss ratio                                                                         | 67.6%                                              | 67.1%      | 68.9 %      | 65.5%      | 65.7%      |
| Acquisition cost ratio                                                             | 34.5%                                              | 37.6%      | 31.7 %      | 31.5%      | 31.5%      |
| Composite ratio                                                                    | 102.1%                                             | 104.7%     | 100.6 %     | 97.0%      | 97.2%      |
| General and administrative expense ratio                                           | 5.6%                                               | 3.8%       | 4.1 %       | 5.2%       | 10.3%      |
| Combined ratio                                                                     | 107.7%                                             | 108.5%     | 104.7 %     | 102.2%     | 107.5%     |
| <b>Net investment return on investments managed by TP LLC <sup>(2)</sup></b>       |                                                    |            |             |            |            |
|                                                                                    | 17.7%                                              | 4.2%       | (1.6)%      | 5.1%       | 23.9%      |

(1) Underwriting ratios are for the property and casualty reinsurance segment only. See additional information in Note 22 to our audited consolidated financial statements included elsewhere in this Annual Report. Underwriting ratios are calculated by dividing the related expense by net premiums earned.

(2) 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 noncontrolling interests. The stated return is net of withholding taxes, which are presented as a component of income tax expense (benefit) in our 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.

|                                                                                                            | 2017                                     | 2016         | 2015        | 2014         | 2013         |
|------------------------------------------------------------------------------------------------------------|------------------------------------------|--------------|-------------|--------------|--------------|
|                                                                                                            | (\$ in thousands, except per share data) |              |             |              |              |
| Selected Balance Sheet Data:                                                                               |                                          |              |             |              |              |
| Total investments in securities                                                                            | \$ 2,995,939                             | \$ 2,647,512 | \$2,317,244 | \$ 1,830,838 | \$ 1,460,864 |
| Cash and cash equivalents <sup>(1)</sup>                                                                   | 8,197                                    | 9,951        | 20,407      | 28,734       | 31,625       |
| Restricted cash and cash equivalents                                                                       | 541,136                                  | 298,940      | 330,915     | 417,307      | 193,577      |
| Reinsurance balances receivable, net                                                                       | 476,008                                  | 381,951      | 294,313     | 303,649      | 191,763      |
| Deferred acquisition costs, net                                                                            | 258,793                                  | 221,618      | 197,093     | 155,901      | 91,193       |
| Total assets                                                                                               | 4,671,794                                | 3,895,644    | 3,545,108   | 2,852,580    | 2,159,890    |
| Reinsurance balances payable                                                                               | 41,614                                   | 43,171       | 24,119      | 27,040       | 9,081        |
| Deposit liabilities <sup>(2)</sup>                                                                         | 129,133                                  | 104,905      | 83,955      | 145,430      | 120,946      |
| Unearned premium reserves                                                                                  | 649,518                                  | 557,076      | 531,710     | 433,809      | 265,187      |
| Loss and loss adjustment expense reserves                                                                  | 720,570                                  | 605,129      | 466,047     | 277,362      | 134,331      |
| Total liabilities                                                                                          | 2,902,079                                | 2,445,919    | 2,149,225   | 1,300,532    | 649,494      |
| Shareholders' equity attributable to Third Point Re common shareholders                                    | 1,656,089                                | 1,414,051    | 1,379,726   | 1,451,913    | 1,391,661    |
| Total shareholders' equity                                                                                 | \$ 1,661,496                             | \$ 1,449,725 | \$1,395,883 | \$ 1,552,048 | \$ 1,510,396 |
| Book value per share data:                                                                                 |                                          |              |             |              |              |
| Basic book value per share <sup>(3)</sup>                                                                  | \$ 16.33                                 | \$ 13.57     | \$ 13.23    | \$ 14.04     | \$ 13.48     |
| Diluted book value per share <sup>(3)</sup>                                                                | \$ 15.65                                 | \$ 13.16     | \$ 12.85    | \$ 13.55     | \$ 13.12     |
| Selected ratios:                                                                                           |                                          |              |             |              |              |
| Change in diluted book value per share <sup>(3)</sup>                                                      | 18.9%                                    | 2.4%         | (5.2)%      | 3.3%         | 20.5%        |
| Return on beginning shareholders' equity attributable to Third Point Re common shareholders <sup>(3)</sup> | 20.1%                                    | 2.0%         | (6.0)%      | 3.6%         | 23.4%        |

- (1) Cash and cash equivalents consists of cash held in banks and other short-term, highly liquid investments with original maturity dates of ninety days or less.
- (2) Using the deposit method of accounting, a deposit liability, rather than written premium, is initially recorded based upon the consideration received less any explicitly identified premiums or fees. In subsequent periods, the deposit liability is adjusted by calculating the effective yield on the deposit to reflect actual payments to date and future expected payments.
- (3) Basic book value per share, diluted book value per share, change in diluted book value per share and return on beginning shareholders' equity attributable to Third Point Re common shareholders are non-GAAP financial measures. There are no comparable GAAP measures. See the reconciliations under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Financial Measures."

## Item 7. 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 Part II, Item 6. "Selected Financial Data", and our consolidated financial statements and the related notes contained elsewhere in this Annual Report on Form 10-K for the fiscal year ended December 31, 2017 ("Annual Report").*

*The statements in this discussion regarding business 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 our Introductory Note to this Annual Report and the risks and uncertainties described in Part I, Item 1A "Risk Factors." Our actual results may differ materially from those contained in or implied by any forward-looking statements.*

*Our fiscal year ends December 31 and, unless otherwise noted, references to years or fiscal are for fiscal years ended December 31.*

## **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, foreign exchange gains (losses) 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 property catastrophe risk and we anticipate that our property catastrophe exposures will consistently remain low when compared to many other reinsurers with whom we compete.

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 payments are made on deposit accounted 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.

We believe that over time, our property and casualty reinsurance segment will contribute to our results by both generating underwriting income as well as generating float. In addition, we hope to grow float 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. In June 2016, Third Point Re, Third Point Re BDA, TPRUSA and Third Point Re USA entered into amended and restated Joint Venture and Investment Management Agreements with Third Point LLC and TP GP for an additional five year term, effective on December 22, 2016. See Note 9 to our consolidated financial statements for additional information.

## **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 and investment results including interest rate levels and the credit ratings and financial strength of competitors.

For the past several years, there has been significant underwriting capacity available and market conditions have been challenging. We believe this excess capacity was primarily due to strong retained earnings in the reinsurance industry as a result of historically low catastrophe losses, an influx of capacity from collateralized reinsurance and other insurance-linked securities vehicles and increased competition from new entrants. While we do not participate in the property catastrophe excess of loss reinsurance segment, we believe that traditional reinsurers facing extreme price pressure in this segment were more aggressively pursuing our targeted lines of business. During the third quarter of 2017, the insurance industry was impacted by significant catastrophe losses, including losses caused by hurricanes Harvey, Irma and Maria and two earthquakes in Mexico. Considering the significant third quarter catastrophe losses, losses sustained in the fourth quarter from California wildfires and other smaller catastrophe losses incurred throughout the year, AIR Worldwide, Risk Management Solutions, Inc., and other industry experts believe that the amount of insured catastrophe losses for 2017 will exceed \$100 billion. While many market participants were hopeful that the significant catastrophe losses would lead to significant improvements in pricing, terms and conditions within the property catastrophe line of business with the possibility of improvements in other reinsurance lines, it now appears that the improvements within the property catastrophe line of business at the January 1 renewal date were generally lower than market expectations. However, we are seeing some signs of improvements in reinsurance terms and conditions and underlying pricing in some of the lines of business that we focus. We renewed several contracts during the fourth quarter and the first quarter of 2018 where we were able to achieve improved reinsurance terms and/or believe there was some modest improvement in the underlying pricing of the insurance policies. We are cautiously optimistic that we will continue to see similar improvements across our in force portfolio as well as new business opportunities.

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, an acute need for reinsurance capital as a result of market dislocation, a client's growth or historically poor performance. We expect to see increased demand for our products as companies that sustained significant catastrophe losses look for ways to bolster their capital positions but it is unclear how the supply of capacity to unaffected lines of business will be impacted. As our capital position has strengthened and market conditions improve, we may also expand the lines of business and forms of reinsurance on which we focus. This may include lines of business and forms of reinsurance with increased risk profiles where we believe the higher expected margins adequately compensate us for this increased risk.

We believe that we are well positioned to benefit from any improvement in terms and conditions and/or increased demand given our modest losses from the recent catastrophe events and strong balance sheet position as well as our focus on customized reinsurance solutions for our clients to support their capital needs. 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.

### **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, return on beginning shareholders' equity attributable to Third Point Re common shareholders and invested asset leverage.

The table below shows the key performance indicators for our consolidated business for the years ended December 31, 2017, 2016 and 2015:

|                                                                                                            | 2017                                                    | 2016        | 2015        |
|------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|-------------|-------------|
|                                                                                                            | (\$ in thousands, except for per share data and ratios) |             |             |
| Key underwriting metrics for Property and Casualty Reinsurance segment:                                    |                                                         |             |             |
| Net underwriting loss <sup>(1)</sup>                                                                       | \$ (42,560)                                             | \$ (50,052) | \$ (28,257) |
| Combined ratio <sup>(1)</sup>                                                                              | 107.7%                                                  | 108.5%      | 104.7 %     |
| Key investment return metrics:                                                                             |                                                         |             |             |
| Net investment income (loss)                                                                               | \$ 391,953                                              | \$ 98,825   | \$ (28,074) |
| Net investment return on investments managed by Third Point LLC                                            | 17.7%                                                   | 4.2%        | (1.6)%      |
| Key shareholders' value creation metrics:                                                                  |                                                         |             |             |
| Basic book value per share <sup>(2)</sup>                                                                  | \$ 16.33                                                | \$ 13.57    | \$ 13.23    |
| Diluted book value per share <sup>(2)</sup>                                                                | \$ 15.65                                                | \$ 13.16    | \$ 12.85    |
| Change in diluted book value per share <sup>(2)</sup>                                                      | 18.9%                                                   | 2.4%        | (5.2)%      |
| Return on beginning shareholders' equity attributable to Third Point Re common shareholders <sup>(2)</sup> | 20.1%                                                   | 2.0%        | (6.0)%      |
| Invested asset leverage                                                                                    | 1.56                                                    | 1.55        | 1.50        |

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

(2) Basic book value per share, diluted book value per share, change in diluted book value per share and return on beginning shareholders' equity attributable to Third Point Re common shareholders are non-GAAP financial measures. There are no comparable GAAP measures. See reconciliations in "Non-GAAP Financial Measures and Other Financial Metrics".

### ***Key Underwriting Metrics for Property and Casualty Reinsurance segment***

See "Segment Results - Property and Casualty Reinsurance" below for additional details.

### ***Key Investment Return Metrics***

Net investment income (loss) is an important measure that affects overall profitability. Net investment income (loss) is primarily 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 accounts with Third Point LLC at any time with three days' notice to pay claims and with five days' notice to pay expenses. Net investment income (loss) is net of investment fee expenses, which include performance and management fees to related parties.

See "Investment Results" below for additional information regarding investment performance and net investment return on investments managed by Third Point LLC.

### ***Key Shareholders' Value Creation Metrics***

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

Basic book value per share and diluted book value per share are non-GAAP financial measures and there are no comparable GAAP measures. See "Non-GAAP Financial Measures and Other Financial Metrics" for reconciliations.

As of December 31, 2017, basic book value per share was \$16.33, representing an increase of \$2.76 per share, or 20.3%, from \$13.57 per share as of December 31, 2016. As of December 31, 2016, basic book value per share was \$13.57, representing an increase of \$0.34 per share, or 2.6%, from \$13.23 per share as of December 31, 2015.

As December 31, 2017, diluted book value per share was \$15.65, representing an increase of \$2.49 per share, or 18.9%, from \$13.16 per share as of December 31, 2016. As of December 31, 2016, diluted book value per share was \$13.16, representing an increase of \$0.31 per share, or 2.4%, from \$12.85 per share as of December 31, 2015.

The increases in book value per share and diluted book value per share were primarily due to increased net income during the years ended December 31, 2017 and 2016 compared to the years ended December 31, 2016 and 2015, respectively. The changes in book value per share and diluted book value per share were also impacted by share activity including share repurchases and the issuance of performance restricted shares.

#### *Return on Beginning Shareholders' Equity Attributable to Third Point Re Common Shareholders*

Return on beginning shareholders' equity attributable to Third Point Re common shareholders as presented is a non-GAAP financial measure. See "Non-GAAP Financial Measures and Other Financial Metrics" for reconciliation.

The increase in return on beginning shareholders' equity attributable to Third Point Re common shareholders for the years ended December 31, 2017 and December 31, 2016 compared to the years ended December 31, 2016 and December 31, 2015, respectively, were primarily due to net income during the year.

#### *Invested asset leverage*

Invested asset leverage is a ratio calculated by dividing our net investments managed by Third Point LLC by shareholders' equity attributable to Third Point Re common shareholders and is a key metric in assessing the amount of insurance float generated by our reinsurance operation that has been invested by our investment manager, Third Point LLC. Given the sensitivity of our return on beginning shareholders' equity to our net investment return on investments managed by Third Point LLC, invested asset leverage is an important metric that management monitors. It is also an important metric by which we evaluate our capital adequacy for rating agency and regulatory purposes. Maintaining an appropriate invested asset leverage in order to optimize the return potential of the Company, while maintaining sufficient rating agency and regulatory capital is an important aspect of how we manage the Company. Invested asset leverage was consistent between December 31, 2017 and December 31, 2016. The increase from December 31, 2015 to December 31, 2016 was primarily due to higher net investment income generated in the year ended December 31, 2016; partially offset by lower contributions to invested assets in the year ended December 31, 2016 compared to the year ended December 31, 2015.

#### **Consolidated Results of Operations—Years ended December 31, 2017, 2016 and 2015**

The following table sets forth the key items discussed in the consolidated results of operations section, and the period over period changes, for the years ended December 31, 2017, 2016 and 2015:

|                                                                   | 2017              | 2016        | Change     | 2015        | Change      |
|-------------------------------------------------------------------|-------------------|-------------|------------|-------------|-------------|
|                                                                   | (\$ in thousands) |             |            |             |             |
| Net underwriting income (loss) <sup>(1)</sup>                     | \$ (42,560)       | \$ (50,052) | \$ 7,492   | \$ (28,257) | \$ (21,795) |
| Net investment income (loss)                                      | 391,953           | 98,825      | 293,128    | (28,074)    | 126,899     |
| Net investment return on investments managed by Third Point LLC   | 17.7%             | 4.2%        | 13.5%      | (1.6)%      | 5.8%        |
| General and administrative expenses <sup>(2)</sup>                | (22,447)          | (17,207)    | (5,240)    | (20,771)    | 3,564       |
| Other expenses                                                    | (12,674)          | (8,387)     | (4,287)    | (8,614)     | 227         |
| Interest expense                                                  | (8,225)           | (8,231)     | 6          | (7,236)     | (995)       |
| Foreign exchange gains (losses)                                   | (12,300)          | 19,521      | (31,821)   | 3,196       | 16,325      |
| Income tax (expense) benefit                                      | (11,976)          | (5,593)     | 6,383      | 2,905       | 8,498       |
| Net income (loss) available to Third Point Re common shareholders | \$ 277,798        | \$ 27,635   | \$ 250,163 | \$ (87,390) | \$ 115,025  |

(1) Property and Casualty Reinsurance segment only.

(2) Corporate function only.

The key 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 net investment income and therefore in our consolidated net income (loss). See additional information regarding investment performance in “Investment Results” section below.

The other key changes in net income (loss) for the year ended December 31, 2017 compared to the year ended December 31, 2016 were primarily due to the following:

Changes in net underwriting results:

- The improvements in net underwriting results for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to adverse development on certain contracts in the prior year period resulting in a \$12.5 million impact on the net underwriting loss, partially offset by \$5.3 million of net underwriting losses in 2017 as a result of catastrophes and an increase in general and administrative expenses allocated to underwriting activities. See “Segment Results” below for additional details.

Other key variances:

- The increase in general and administrative expenses related to corporate activities for the year ended December 31, 2017 compared to 2016 was primarily due to an increase in our annual incentive plan compensation expense, partially offset by lower stock compensation expense in the current year and separation costs in the prior year. Our annual incentive plan is based on the Company’s return on average equity and therefore, we recorded higher incentive plan accruals in 2017 compared to the prior year as a result of the higher return on average equity.
- The change in foreign exchange gains (losses) was primarily due to the revaluation of foreign currency loss and loss adjustment expense reserves denominated in British pounds into the United States dollar, and the related foreign exchange rate movements in the respective periods. For these contracts, non-U.S. dollar reinsurance assets, or balances held in trust accounts securing reinsurance liabilities generally offset reinsurance liabilities in the same non-U.S. dollar currencies resulting in minimal net exposure. As a result, the foreign exchange losses on loss and loss adjustment expense reserves in the period are offset by corresponding foreign exchange gains included in net investment income (loss) resulting from the revaluation of foreign currency reinsurance collateral held in trust accounts.
- The increase in other expenses for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to revised estimates of underlying assumptions on some of our deposit liability contracts that resulted in a decrease in other expenses in the prior year period and also due to an increase in the volume of deposit liabilities for the year ended December 31, 2017.
- The increase in income tax expense for the year ended December 31, 2017 was primarily the result of an increase in taxable income generated by our U.S. subsidiaries.

The change in net income for the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to the following:

Changes in net underwriting results:

- The increase in net underwriting loss and related combined ratio primarily reflects net adverse development for the year ended December 31, 2016 on certain contracts as well as a deterioration in market conditions. See “Segment Results” below for additional details.

Other key variances:

- The decrease in general and administrative expenses related to corporate activities for the year ended December 31, 2016 compared to 2015 was primarily due to a decrease in our annual incentive plan compensation expense where we did not achieve the threshold performance target, lower share compensation

expense in the current year due to forfeitures and fewer restricted shares with performance and service conditions considered probable of vesting.

- 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 include a full year of interest expense.
- The increase in foreign exchange gains were primarily due to the revaluation of foreign currency loss and loss adjustment expense reserves denominated in British pounds to the United States dollar, which had strengthened during the year.
- The increase in income tax expense for the year ended December 31, 2016 was primarily due to withholding taxes on our investment portfolio, partially offset by tax benefit as a result of a pre-tax loss generated by our U.S. subsidiaries.

### Segment Results—Years ended December 31, 2017, 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 periods 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, foreign exchange gains (losses) and income tax expense (benefit).

#### *Property and Casualty Reinsurance*

The following table sets forth net underwriting results and ratios, and the year over year changes for the Property and Casualty Reinsurance segment for the years ended December 31, 2017, 2016 and 2015:

|                                                 | 2017             | 2016               | Change            | 2015               | Change          |
|-------------------------------------------------|------------------|--------------------|-------------------|--------------------|-----------------|
|                                                 |                  |                    | (\$ in thousands) |                    |                 |
| Gross premiums written                          | \$ 641,620       | \$ 617,374         | \$ 24,246         | \$ 702,458         | \$ (85,084)     |
| Net premiums earned                             | 547,058          | 590,190            | (43,132)          | 602,816            | (12,626)        |
| Loss and loss adjustment expenses incurred, net | 370,058          | 395,932            | (25,874)          | 415,041            | (19,109)        |
| Acquisition costs, net                          | 188,904          | 222,150            | (33,246)          | 191,217            | 30,933          |
| General and administrative expenses             | 30,656           | 22,160             | 8,496             | 24,815             | (2,655)         |
| Net underwriting income (loss)                  | (42,560)         | (50,052)           | 7,492             | (28,257)           | (21,795)        |
| Net investment income (loss) on float           | 114,435          | 16,931             | 97,504            | (10,810)           | 27,741          |
| Other expenses                                  | (12,674)         | (8,387)            | (4,287)           | (8,614)            | 227             |
| <b>Segment income (loss)</b>                    | <b>\$ 59,201</b> | <b>\$ (41,508)</b> | <b>\$ 100,709</b> | <b>\$ (47,681)</b> | <b>\$ 6,173</b> |
| <b>Underwriting ratios <sup>(1)</sup>:</b>      |                  |                    |                   |                    |                 |
| Loss ratio                                      | 67.6%            | 67.1%              | 0.5 %             | 68.9%              | (1.8)%          |
| Acquisition cost ratio                          | 34.5%            | 37.6%              | (3.1)%            | 31.7%              | 5.9 %           |
| Composite ratio                                 | 102.1%           | 104.7%             | (2.6)%            | 100.6%             | 4.1 %           |
| General and administrative expense ratio        | 5.6%             | 3.8%               | 1.8 %             | 4.1%               | (0.3)%          |
| <b>Combined ratio</b>                           | <b>107.7%</b>    | <b>108.5%</b>      | <b>(0.8)%</b>     | <b>104.7%</b>      | <b>3.8 %</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; therefore 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 will not necessarily renew in a comparable period;
- We may extend and/or amend contracts resulting in premium that will not necessarily renew in a comparable period;
- Our reinsurance contracts often contain commutation and/or cancellation provisions; and
- Our quota share 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 and 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 years ended December 31, 2017, 2016 and 2015:

|                                         | 2017 |         | 2016              |    | 2015    |         |
|-----------------------------------------|------|---------|-------------------|----|---------|---------|
|                                         |      |         | (\$ in thousands) |    |         |         |
| Property                                | \$   | 136,999 | 21.4%             | \$ | 98,334  | 15.9%   |
| Casualty                                |      | 269,759 | 42.0%             |    | 213,050 | 34.5%   |
| Specialty                               |      | 125,511 | 19.6%             |    | 305,990 | 49.6%   |
| Total prospective reinsurance contracts |      | 532,269 | 83.0%             |    | 617,374 | 100.0%  |
| Retroactive reinsurance contracts       |      | 109,351 | 17.0%             |    | —       | —%      |
|                                         | \$   | 641,620 | 100.0%            | \$ | 617,374 | 100.0%  |
|                                         |      |         |                   |    | \$      | 702,458 |
|                                         |      |         |                   |    |         | 100.0%  |

The increase in gross premiums written of \$24.2 million, or 3.9%, for the year ended December 31, 2017 compared to the year ended December 31, 2016 was driven by:

Factors resulting in increases:

- We wrote \$286.4 million of new business for the year ended December 31, 2017, of which \$164.0 million was casualty business, \$109.4 million was retroactive reinsurance contracts and \$13.0 million was specialty business.
- Changes in renewal premiums for the year ended December 31, 2017 resulted in a net increase in premiums of \$57.8 million primarily due to changes to one contract renewed in the period to increase our line size and to change from a one year contract to a two year contract resulting in additional premium recorded in the 2017 period. Premiums can change on renewals of contracts due to a number of factors, including changes in our line size or participation, changes in the underlying premium volume and pricing trends of the client's program as well as other contractual terms and conditions.

Factors resulting in decreases:

- We recognized \$161.1 million of premium in the year ended December 31, 2016 related to contracts that we did not renew in the year ended December 31, 2017 due to changes in pricing and/or terms and conditions.
- We recognized net increases in premium of \$148.3 million and \$226.2 million in the years ended December 31, 2017 and 2016, respectively, related to the net impact of contract extensions, cancellations and contracts written in the prior year with no comparable premium in the current year period.

- We recorded increases in premium estimates relating to prior periods of \$25.6 million and \$106.6 million for the years ended December 31, 2017 and 2016, respectively. The increase in premium estimates for the year ended December 31, 2017 was due to several contracts for which clients provided updated projections indicating that they expected to write more business than initially estimated. The significant increase in premium estimates for the year ended December 31, 2016 was primarily due to:
  - We wrote one large credit and financial lines quota share, covering primarily mortgage business, whereby the ceding company significantly increased their writings, which resulted in a \$46.9 million premium estimate increase in 2016 on this contract;
  - We wrote a multi-line contract for several underwriting years covering commercial auto physical damage and auto extended warranty. As this was a new and growing program, we initially recorded the cedent's estimate of expected written premium at a lower amount than their initial estimate. The ceding company exceeded their premium projections resulting in an increase of \$23.6 million related to that contract; and
  - We wrote a general liability quota share contract in 2015 whereby the ceding company increased their writings, which resulted in a \$20.8 million premium estimate increase in 2016 on this contract.

The decrease in gross premiums written of \$85.1 million, or 12.1%, for the year ended December 31, 2016 compared to the year ended December 31, 2015 was driven by:

Factors resulting in decreases:

- We recognized \$193.1 million of premium in the year ended December 31, 2015 related to contracts that we did not renew in the year ended December 31, 2016, consisting of \$107.5 million for contracts that were not subject to renewal in 2016 and \$85.6 million for contracts that we made a decision not to renew in 2016 due to changes in pricing and/or terms and conditions.
- We recognized a net increase in premium of \$90.5 million in the year ended December 31, 2016 compared to a net increase of \$188.3 million in the year ended December 31, 2015 related to the net impact of contract extensions, cancellations and contracts written in the prior year with no comparable premium in the current year period.

Factors resulting in increases:

- We wrote \$111.4 million of new business for the year ended December 31, 2016, of which \$83.9 million was specialty business and \$27.5 million was casualty business.
- Changes in renewal premiums for the year ended December 31, 2016 resulted in a net increase in premiums of \$27.1 million primarily due to increases in participations and underlying premium volume on contracts that renewed in the period. Premiums can change on renewals of contracts due to a number of factors, including changes in our line size or participation, changes in the underlying premium volume and pricing trends of the client's program as well as other contractual terms and conditions.
- We recorded increases in premium estimates relating to prior periods of \$106.6 million and \$39.3 million for the years ended December 31, 2016 and 2015, respectively. The 2016 increases in premium estimates were primarily due to the following factors:
  - We wrote one large credit and financial lines quota share, covering primarily mortgage business, whereby the ceding company significantly increased their writings, which resulted in a \$46.9 million premium estimate increase during the year on this contract;
  - We wrote a multi-line contract for several underwriting years covering commercial auto physical damage and auto extended warranty. As this was a new and growing program, we initially recorded the cedent's estimate of expected written premium at a lower amount than their initial estimate. The ceding company exceeded their premium projections resulting in an increase of \$23.6 million related to that contract;
  - We wrote a general liability quota share whereby the ceding company increased their writings, which resulted in a \$20.8 million premium estimate increase during the year on this contract; and

- The remaining net increase in premium estimates related to several contracts where the cedents reported writing more business than initially expected.
- The increases in premium estimates for the year ended December 31, 2015 were due to several contracts for which clients provided updated projections indicating that they expected to write more business than initially estimated.

#### *Net Premiums Earned*

The decrease in net premiums earned for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to a lower in-force underwriting portfolio. This decrease was partially offset by \$109.4 million of new retroactive exposures in reinsurance contracts that were written and fully earned in the year ended December 31, 2017 compared to no retroactive reinsurance contracts written in the year ended December 31, 2016.

The decrease in net premiums earned for the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to \$108.1 million of new retroactive exposures in reinsurance contracts that were written and fully earned in the year ended December 31, 2015 compared to no retroactive reinsurance contracts written in the year ended December 31, 2016. This decrease was partially offset by an increase in net premiums earned as a result of 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. The change in our net loss and loss adjustment expenses and related ratio was primarily affected by changes in mix of business, prior years' reserve development and catastrophe losses in 2017.

The following is a summary of reserve development for the years ended December 31, 2017, 2016 and 2015:

For the year ended December 31, 2017, we incurred \$22.3 million of net favorable prior years' reserve development as a result of re-estimation of loss reserves. The \$22.3 million of net favorable prior years' reserve development for the year ended December 31, 2017 was accompanied by net increases of \$19.8 million in acquisition costs, resulting in a \$2.5 million, or 0.5 percentage points, improvement in net underwriting results. The net underwriting results impact of the favorable loss development was primarily due to:

- \$5.8 million of net favorable underwriting loss development relating to several workers' compensation contracts written from 2012 to 2014, driven by better than expected loss experience; and
- \$1.3 million of net favorable underwriting loss development from several other contracts as a result of better than expected loss experience; partially offset by
- \$4.6 million of net adverse underwriting loss development relating to non-standard auto contracts, primarily due to the inability of cedents to promptly react to increasing frequency and severity trends, resulting in underpriced business and adverse selection.

For the year ended December 31, 2016, we incurred \$10.5 million of net adverse prior years' reserve development as a result of re-estimation of loss reserves. The \$10.5 million of net adverse prior years' reserve development for the year ended December 31, 2016 was accompanied by net increases of \$2.0 million in acquisition costs, resulting in a net adverse development of \$12.5 million in net underwriting results, or 2.1 percentage points. The net underwriting results impact of the adverse loss development was due to:

- \$4.8 million of net adverse underwriting loss development relating to one multi-line contract written since 2014. This contract contains underlying commercial auto physical damage and auto extended warranty exposure. The adverse loss experience was a result of an increase in the number of reported claims and inadequate pricing in certain segments of the underlying business;
- \$4.0 million of net adverse underwriting loss development relating to non-standard auto contracts, primarily due to the inability of cedents to promptly react to increasing frequency and severity trends, resulting in underpriced business and adverse selection;

- \$3.7 million of net adverse underwriting loss development relating to our Florida homeowners' contracts primarily as a result of higher than anticipated water damage claims and an increase in the practice of assignment of benefits whereby homeowners assign their rights for filing and settling claims to attorneys and public adjusters, which we believe has led to an increase in the frequency of claims reported as well as the severity of losses and loss adjustment expenses;
- \$3.3 million of net adverse underwriting loss development relating to a workers' compensation contract written from 2012 to 2014 under which we have been experiencing higher than expected claims development that led to an increase in our previous loss assumptions on this contract; and
- \$2.1 million of net favorable underwriting loss development from several other contracts.

For the year ended December 31, 2015, we incurred \$5.4 million of net favorable prior years' reserve development as a result of re-estimation of loss reserves. The \$5.4 million of net favorable prior years' reserve development for the year ended December 31, 2015 was accompanied by net increases of \$13.2 million in acquisition costs, resulting in a net increase of \$7.8 million in net underwriting loss, or 1.3 percentage points. The \$7.8 million net decrease in net underwriting results was a result of having favorable loss reserve development on certain contracts that were either fully or partially offset by increases in sliding scale or profit commissions whereas certain workers' compensation, auto and property contracts with adverse loss development did not have offsetting decreases in acquisition costs to the same degree, resulting in the net favorable development being more than offset by acquisition costs in the period.

#### *Acquisition Costs*

Acquisition costs include commissions, 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. 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.

Most of 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.

The decrease in acquisition costs, net, and the related acquisition cost ratio for the year ended December 31, 2017 was primarily due to a retroactive reinsurance contracts with a low acquisition cost ratio in the year ended December 31, 2017 compared to no retroactive reinsurance contracts in the year ended December 31, 2016. Also impacting the difference is lower earned premiums in the current year period resulting in a lower acquisition cost expense amount.

The increase in acquisition costs, net, and the related acquisition cost ratio for the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to a retroactive reinsurance contract with a low acquisition cost ratio, which was almost fully earned in 2015 compared to 2016, where that same contract had minimal earned premium.

See additional information in Net Loss and Loss Adjustment Expenses section above.

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

Net investment income (loss) allocated to the Property and Casualty Reinsurance segment consists of net investment income (loss) on float. The change in net investment income (loss) on float for the year ended December 31, 2017 compared to the year ended December 31, 2016 and for the year ended December 31, 2016 compared the year ended December 31, 2015 was primarily due to change in investment returns and higher average amount of investments attributable to float managed by Third Point LLC. 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 years presented.

### *General and Administrative Expenses*

The increase in general and administrative expenses allocated to underwriting activities and the related general and administrative expenses ratio for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to an increase of \$13.9 million in our annual incentive plan compensation expense, partially offset by lower stock compensation expense of \$3.5 million as a result of most stock options granted to certain employees being fully vested. Our annual incentive plan is based on the Company's return on average equity and our higher accrual in 2017 reflects the performance of the Company for 2017 compared to 2016.

The decrease in general and administrative expenses allocated to underwriting activities for the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to a decrease in our annual incentive plan compensation expense where we did not achieve the threshold performance target during 2016, lower share compensation expense in 2016 due to forfeitures and fewer restricted shares with performance and service conditions considered probable of vesting.

### *Other Expenses*

Other expenses are comprised of expenses relating to interest crediting features in certain reinsurance and deposit contracts. The increase in other expenses for the year ended December 31, 2017 was primarily due to revised estimates of underlying assumptions on our deposit liability contracts in the year ended December 31, 2016 that resulted in a decrease in other expenses in the prior year period.

The decrease in other expenses for the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to revised estimates of underlying assumptions on our deposit liability contracts in the year ended December 31, 2016 that resulted in a decrease in other expenses, partially offset by an increased number of reinsurance contracts written in 2014 and 2015 that have interest crediting features.

### **Corporate Function**

The following table sets forth net income (loss) and the year over year changes for the Corporate Function for the years ended December 31, 2017, 2016 and 2015:

|                                                                                 | <u>2017</u>       | <u>2016</u>      | <u>Change</u>     | <u>2015</u>        | <u>Change</u>     |
|---------------------------------------------------------------------------------|-------------------|------------------|-------------------|--------------------|-------------------|
|                                                                                 | (\$ in thousands) |                  |                   |                    |                   |
| Net investment income (loss) on capital                                         | \$ 277,518        | \$ 81,894        | \$ 195,624        | \$ (17,333)        | \$ 99,227         |
| General and administrative expenses                                             | (22,447)          | (17,207)         | (5,240)           | (20,771)           | 3,564             |
| Interest expense                                                                | (8,225)           | (8,231)          | 6                 | (7,236)            | (995)             |
| Foreign exchange gains (losses)                                                 | (12,300)          | 19,521           | (31,821)          | 3,196              | 16,325            |
| Income tax (expense) benefit                                                    | (11,976)          | (5,593)          | (6,383)           | 2,905              | (8,498)           |
| Segment (income) loss attributable to noncontrolling interests in related party | (3,973)           | (1,241)          | (2,732)           | (53)               | (1,188)           |
| <b>Segment income (loss)</b>                                                    | <u>\$ 218,597</u> | <u>\$ 69,143</u> | <u>\$ 149,454</u> | <u>\$ (39,292)</u> | <u>\$ 108,435</u> |

## 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 years ended December 31, 2017, 2016 and 2015:

|                                                                 | 2017  |        |       |
|-----------------------------------------------------------------|-------|--------|-------|
|                                                                 | Long  | Short  | Net   |
| Equity                                                          | 21.5% | (4.6)% | 16.9% |
| Credit                                                          | 0.7%  | (0.6)% | 0.1%  |
| Other                                                           | 1.8%  | (1.1)% | 0.7%  |
| Net investment return on investments managed by Third Point LLC | 24.0% | (6.3)% | 17.7% |
| S&P 500 Total Return Index                                      |       |        | 21.8% |

|                                                                 | 2016 |        |        |
|-----------------------------------------------------------------|------|--------|--------|
|                                                                 | Long | Short  | Net    |
| Equity                                                          | 1.5% | (2.9)% | (1.4)% |
| Credit                                                          | 6.4% | (0.4)% | 6.0 %  |
| Other                                                           | 0.5% | (0.9)% | (0.4)% |
| Net investment return on investments managed by Third Point LLC | 8.4% | (4.2)% | 4.2 %  |
| S&P 500 Total Return Index                                      |      |        | 12.0 % |

|                                                                 | 2015   |        |        |
|-----------------------------------------------------------------|--------|--------|--------|
|                                                                 | Long   | Short  | Net    |
| Equity                                                          | (2.5)% | (0.8)% | (3.3)% |
| Credit                                                          | 1.5 %  | 0.5 %  | 2.0 %  |
| Other                                                           | (1.0)% | 0.7 %  | (0.3)% |
| Net investment return on investments managed by Third Point LLC | (2.0)% | 0.4 %  | (1.6)% |
| S&P 500 Total Return Index                                      |        |        | 1.4 %  |

For the year ended December 31, 2017, the net investment results were primarily attributable to the equity portfolio. Within equities, we experienced positive returns across each long equity sector partially offset by losses from short positions, primarily from equity market hedges. One large long equity healthcare position was a notable contributor to the long equity performance for the year. Credit and the macroeconomic and other strategy, including currency and private investments, also contributed to positive performance with gains from the long exposures partially offset by short exposures in each strategy.

For the year ended December 31, 2016, the net investment results were primarily driven by positive returns in our credit strategy. Within credit, profits in corporate and sovereign credit were partially offset by modest losses in structured credit. Corporate credit was the main driver in the credit strategy and resulted from positive returns on investments in the energy sector. Within equities, negative performance from two large healthcare positions were partially offset by positive performance from investments in the financial and industrials sectors. During the year, Third Point LLC increased exposure to risk arbitrage transactions, which generated positive performance from several merger-related investments and partially offset losses in the currency and macroeconomic portions of the other portfolio.

For the year ended December 31, 2015, the net investment results were primarily attributable to losses in our long equity and performing credit portfolios. Within credit, gains from one large sovereign debt investment and strong performance from the structured credit portfolio outweighed modest losses in performing credit positions in the energy

sector. In equities, negative performance was partially offset by gains from short equity investments. During the year, Third Point LLC reduced net exposure by both exiting long positions and adding to the short portfolio.

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.

#### *General and Administrative Expenses*

General and administrative expenses allocated to corporate activities 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 headcount analysis. The increase in general and administrative expenses related to corporate activities for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to an increase of \$7.4 million in our annual incentive plan compensation expense, partially offset by lower stock compensation expense of \$1.9 million in the current year and separation costs in 2016. Our annual incentive plan is based on the Company’s return on average equity.

The decrease for the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to a decrease in our annual incentive plan compensation expense where we did not achieve the threshold performance target in 2016, lower share compensation expense in 2016 due to forfeitures and fewer restricted shares with performance and service conditions considered probable of vesting.

#### *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.

#### *Foreign Exchange Gains (Losses)*

The foreign exchange losses for the year ended December 31, 2017 compared to the foreign exchange gains for the year ended December 31, 2016 were primarily due to the revaluation of foreign currency loss and loss adjustment expense reserves denominated in British pounds into the United States dollar, which had strengthened during the prior year and weakened in the current year. For these contracts, non-U.S. dollar reinsurance assets, or balances held in trust accounts securing reinsurance liabilities generally offset reinsurance liabilities in the same non-U.S. dollar currencies resulting in minimal net exposure. As a result, the foreign exchange gains (losses) on loss and loss adjustment expense reserves in the period are offset by corresponding foreign exchange gains (losses) included in net investment income (loss) resulting from the revaluation of foreign currency reinsurance collateral held in trust accounts. Refer to “ITEM 3. Quantitative and Qualitative Disclosures about Market Risks” for further discussion on foreign currency risk related to our reinsurance contracts.

#### *Income Taxes*

See Note 14 to our consolidated financial statements for additional information regarding income taxes. The increase in income tax expense for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to an increase in taxable income generated by our U.S. subsidiaries, partially offset by an adjustment of \$0.8 million to the net deferred tax liability resulting from the recently enacted Tax Cuts and Jobs Act which reduced the United States federal income tax rate from 35% to 21%.

#### **Non-GAAP Financial Measures and Other Financial Metrics**

We have included certain financial measures that are not calculated under standards or rules that comprise GAAP. Such measures, including net investment income (loss) on float, book value per share, diluted book value per share, change in diluted book value per share and return on beginning shareholders’ equity attributable to Third Point Re common shareholders, 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 our underlying business. These measures are used by management to monitor our results and should not be viewed as a substitute for those determined in accordance with GAAP. Reconciliations of non-GAAP measures to the most comparable GAAP figures are included below.

In addition, we refer to certain financial metrics such as net investment return on investments managed by Third Point LLC, which is an important metric to measure the performance of our investment manager, Third Point LLC. A more detailed description of this financial metric is included below. We also refer to other financial metrics such as invested asset leverage and other generic performance metrics which are described and explained in this subsection.

### ***Non-GAAP Financial Measures***

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

Net investment income (loss) on float is an important aspect of our property and casualty reinsurance operation. In an insurance or reinsurance operation, float arises because premiums and proceeds from deposit accounted contracts are collected before losses are paid. In some instances, the interval between receipts and payments can extend over many years. During this time interval, insurance and reinsurance companies invest the premiums received and generate investment returns. We track 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 operation 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).

|                                                                             | 2017              | 2016      | 2015        |
|-----------------------------------------------------------------------------|-------------------|-----------|-------------|
|                                                                             | (\$ in thousands) |           |             |
| Net investment income (loss)                                                | \$ 391,953        | \$ 98,825 | \$ (28,074) |
| Less:                                                                       |                   |           |             |
| Net gain (loss) on investment in Kiskadee Fund                              | (86)              | 1,533     | 1,465       |
| Net investment income related to Catastrophe Reinsurer and Catastrophe Fund | —                 | —         | 69          |
| Net investment income (loss) on investments managed by Third Point LLC      | 392,039           | 97,292    | (29,608)    |
| Less:                                                                       |                   |           |             |
| Net investment income (loss) on capital                                     | 277,604           | 80,361    | (18,798)    |
| Net investment income (loss) on float                                       | \$ 114,435        | \$ 16,931 | \$ (10,810) |

#### ***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 total noncontrolling interests. The stated return is net of withholding taxes, which are presented as a component of income tax (expense) benefit in our 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.

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

Basic book value per share and diluted book value per share are non-GAAP financial measures and there are no comparable GAAP measures. Basic book value per share, as presented, is a non-GAAP financial measure and is calculated by dividing shareholders' equity attributable to Third Point Re common shareholders by the number of common shares outstanding shares, excluding the total number of unvested restricted shares, at period end. Diluted book value per share, as presented, is a non-GAAP financial measure and represents basic book value per share combined with the impact from dilution of all in-the-money share options issued, warrants and unvested restricted shares outstanding as of any period end. For unvested restricted shares with a performance condition, we include the unvested restricted shares for which we consider vesting to be probable. Change in basic book value per share is calculated by taking the change in basic book value per share divided by the beginning of period book value per share. Change in diluted book value per share is calculated by taking the change in diluted book value per share divided by the beginning of period diluted book value per share. We believe that long-term growth in diluted book value per share is the most



important measure of our financial performance because it allows our 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.

The following table sets forth the computation of book value per share, basic book value per share and diluted book value per share as of December 31, 2017, 2016 and 2015 :

|                                                                                       | 2017                                                  | 2016                | 2015                |
|---------------------------------------------------------------------------------------|-------------------------------------------------------|---------------------|---------------------|
|                                                                                       | (\$ in thousands, except share and per share amounts) |                     |                     |
| <b>Basic and diluted book value per share numerator:</b>                              |                                                       |                     |                     |
| Shareholders' equity attributable to Third Point Re common shareholders               | \$ 1,656,089                                          | \$ 1,414,051        | \$ 1,379,726        |
| Effect of dilutive warrants issued to founders and an advisor                         | 46,512                                                | 46,512              | 46,512              |
| Effect of dilutive stock options issued to directors and employees                    | 51,422                                                | 52,930              | 58,070              |
| Diluted book value per share numerator:                                               | <u>\$ 1,754,023</u>                                   | <u>\$ 1,513,493</u> | <u>\$ 1,484,308</u> |
| <b>Basic and diluted book value per share denominator:</b>                            |                                                       |                     |                     |
| Common shares outstanding                                                             | 103,282,427                                           | 105,856,531         | 105,479,341         |
| Unvested restricted shares                                                            | (1,873,588)                                           | (1,682,783)         | (1,222,596)         |
| Basic book value per share denominator:                                               | <u>101,408,839</u>                                    | <u>104,173,748</u>  | <u>104,256,745</u>  |
| Effect of dilutive warrants issued to founders and an advisor                         | 4,651,163                                             | 4,651,163           | 4,651,163           |
| Effect of dilutive stock options issued to directors and employees                    | 5,123,531                                             | 5,274,333           | 5,788,391           |
| Effect of dilutive restricted shares issued to directors and employees <sup>(1)</sup> | 905,412                                               | 878,529             | 837,277             |
| Diluted book value per share denominator:                                             | <u>112,088,945</u>                                    | <u>114,977,773</u>  | <u>115,533,576</u>  |
| <b>Basic book value per share</b>                                                     | <b>\$ 16.33</b>                                       | <b>\$ 13.57</b>     | <b>\$ 13.23</b>     |
| <b>Diluted book value per share</b>                                                   | <b>\$ 15.65</b>                                       | <b>\$ 13.16</b>     | <b>\$ 12.85</b>     |

(1) As of December 31, 2017, the effect of dilutive restricted shares issued to directors and employees was comprised of 18,209 restricted shares with a service condition only and 887,203 restricted shares with a service and performance condition that were considered probable of vesting.

#### *Return on Beginning Shareholders' Equity Attributable to Third Point Re Common Shareholders*

Return on beginning shareholders' equity attributable to Third Point Re common shareholders as presented is a non-GAAP financial measure. Return on beginning shareholders' equity attributable to Third Point Re common shareholders is calculated by dividing net income (loss) available to Third Point Re common shareholders by the beginning shareholders' equity attributable to Third Point Re common shareholders. We believe that return on beginning shareholders' equity attributable to Third Point Re common shareholders is an important measure because it assists our management and investors in evaluating the Company's profitability. For the years ended December 31, 2017 and 2016, we have also adjusted the beginning shareholders' equity attributable to Third Point Re common shareholders for the impact of the shares repurchased on a weighted average basis. This adjustment increased the stated returns on beginning shareholders' equity attributable to Third Point Re common shareholders.

Return on beginning shareholders' equity attributable to Third Point Re common shareholders for the years ended December 31, 2017, 2016 and 2015 was calculated as follows:

|                                                                                                      | 2017                | 2016                | 2015                |
|------------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
|                                                                                                      | (\$ in thousands)   |                     |                     |
| Net income (loss) available to Third Point Re common shareholders                                    | \$ 277,798          | \$ 27,635           | \$ (87,390)         |
| Shareholders' equity attributable to Third Point Re common shareholders - beginning of year          | 1,414,051           | 1,379,726           | 1,451,913           |
| Impact of weighting related to shareholders' equity from shares repurchased                          | (29,038)            | (4,363)             | —                   |
| Adjusted shareholders' equity attributable to Third Point Re common shareholders - beginning of year | <u>\$ 1,385,013</u> | <u>\$ 1,375,363</u> | <u>\$ 1,451,913</u> |
| Return on beginning shareholders' equity attributable to Third Point Re common shareholders          | <u>20.1%</u>        | <u>2.0%</u>         | <u>(6.0)%</u>       |

## ***Other Financial Metrics***

### ***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 underwriting activities. See additional information in Note 22 to our consolidated financial statements.

### ***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. This ratio is a key indicator of a reinsurance company's underwriting profitability. A combined ratio of 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 consolidated financial statements.

## **Liquidity and Capital Resources**

### ***Liquidity Requirements***

Third Point Re 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 Re'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. Cash is used primarily to pay loss and loss adjustment expenses, reinsurance premiums, acquisition costs, interest expense, taxes, general and administrative expenses and to purchase investments.

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 BDA 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 requirement ("ECR") or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. Where either Third Point Re BDA 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 BMA.

In addition, each of Third Point Re BDA 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 December 31, 2017, Third Point Re BDA could pay dividends to Third Point Re of approximately \$357.5 million (December 31, 2016 - \$315.0 million). Third Point Re USA has also entered into a Net Worth Maintenance Agreement that further restricts the amount of capital and surplus it has available for the payment of dividends. In order to remain in compliance with the Net Worth Maintenance Agreement we have entered into with Third Point Re USA (the "Net Worth Maintenance Agreement"), we have committed to ensuring that Third Point Re USA will maintain a minimum level of capital of \$250.0 million. Failure of Third Point Re USA 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 Re of approximately \$24.3 million as of December 31, 2017 (December 31, 2016 - \$19.6 million).

In addition to the regulatory and other contractual constraints to paying dividends, we manage the capital of the group and each of our operating subsidiaries to support our current ratings from A.M. Best. This could further reduce the ability and amount of dividends that could be paid from Third Point Re BDA or Third Point Re USA to Third Point Re. After several years of premium growth and float generation from our inception, we have reached a level that allows us to rationalize our expense base and appropriately utilize our capital. Given difficult 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.

#### *Other Liquidity Requirements*

Third Point Re fully and unconditionally guarantees the \$115.0 million of debt obligations issued by TPRUSA, a wholly owned subsidiary. See Note 11 to our consolidated financial statements for detailed information on our Senior Notes.

Third Point Re may also require cash to pay for share repurchases. See Note 15 to our consolidated financial statements for detailed information on deposit liability contracts.

#### *Sources of Liquidity*

Historically, our sources of funds have primarily consisted of premiums written, reinsurance recoveries, investment income and proceeds from sales and redemptions of investments.

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 OECD 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 three 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 to manage our operations.

As of December 31, 2017, \$2,202.4 million, or 73.5% (December 31, 2016 - \$1,452.3 million, or 54.9%) 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 consolidated financial statements for additional information on the framework for measuring fair value established by U.S. GAAP disclosure requirements.

In addition, we expect that our cash and cash equivalents on the balance sheet 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 cash and cash equivalents on the balance sheet, investment returns and cash flow from operations 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 Flows*

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, underwriting and other expenses paid.

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 years ended December 31, 2017, 2016 and 2015 were as follows:

|                                                     | 2017              | 2016     | 2015       |
|-----------------------------------------------------|-------------------|----------|------------|
|                                                     | (\$ in thousands) |          |            |
| Net cash provided by (used in) operating activities | \$ (78,536)       | \$ 4,771 | \$ 187,776 |
| Net cash provided by (used in) investing activities | 23,049            | (53,278) | (163,884)  |
| Net cash provided by (used in) financing activities | 53,733            | 38,051   | (32,219)   |
| Net decrease in cash and cash equivalents           | (1,754)           | (10,456) | (8,327)    |
| Cash and cash equivalents at beginning of year      | 9,951             | 20,407   | 28,734     |
| Cash and cash equivalents at end of year            | \$ 8,197          | \$ 9,951 | \$ 20,407  |

#### *Operating Activities*

Cash flows used in 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 year ended December 31, 2017 compared to the year ended December 31, 2016 and the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to higher performance fees in the current year compared to prior years and lower float generated from our reinsurance operations. Excess cash generated from our operating activities is typically then invested by Third Point LLC. For the years ended December 31, 2017, 2016 and 2015, we made net contributions of \$36.6 million, \$53.3 million and \$147.1 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 consolidated statements of cash flows prepared in accordance with U.S. GAAP. The amount of float can vary significantly from period to period depending on the timing, type and size of reinsurance contracts we bind. Refer to “ITEM 2. Management’s Discussion and Analysis - Non-GAAP measures” for a definition of investment income (loss) on float.

The decrease in float generated in the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to the timing of cash flows on our reinsurance contracts including the non-renewal of one large quota share contract in the current year period for which premium was received up front in the prior year period, partially offset by the premium received on new retroactive reinsurance contracts in 2017 compared to none written in 2016.

The decrease in float in the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to not having written any retroactive reinsurance contracts during 2016, which typically result in up-front premiums paid, compared to \$108.1 million for the year ended December 31, 2015.

#### *Investing Activities*

Cash flows provided by investing activities primarily reflects investment activities related to our separate accounts managed by Third Point LLC. Cash flows provided by investing activities for the year ended December 31, 2017 primarily relates to proceeds from the sale of certain investments, including proceeds of \$26.7 million as a result of the redemption of our investment in the Kiskadee fund, to fund cash flows from operations and share repurchases of \$40.9 million. Cash flows used in investing activities for the years ended December 31, 2016 and 2015 primarily reflects the investment of float generated from our reinsurance operations, including the net proceeds from deposit liability contracts. Cash flows used in investing activities for the year ended December 31, 2015 also includes 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 Notes issued by TPRUSA and guaranteed by Third Point Re. 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.

#### *Financing Activities*

Cash flows provided by financing activities for the year ended December 31, 2017 consisted of \$74.0 million of net contributions from total noncontrolling interests and contributions received on deposit liability contracts of \$19.1 million, partially offset by \$40.9 million for shares repurchased. Cash flows provided by financing activities for the year ended December 31, 2016 consisted of contributions received on deposit liability contracts and proceeds from the exercise of stock options, partially offset by \$7.4 million of shares repurchased. Cash flows used in financing activities for the year ended December 31, 2015 consisted primarily of the proceeds from issuance of Notes, partially offset by distributions of noncontrolling interests from the investment affiliate and Catastrophe Fund and payments to settle two deposit liability contracts.

For the period from inception until December 31, 2017, 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.

#### ***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 consolidated financial statements for additional information on restricted cash, cash equivalents and investments.

Restricted cash and cash equivalents and restricted investments increased by \$141.4 million, or 19.5%, to \$867.6 million as of December 31, 2017 from \$726.2 million as of December 31, 2016. The increase was primarily due to an increase in the number of reinsurance contracts that required collateral. 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 December 31, 2017, \$250.5 million (December 31, 2016 - \$231.8 million) of letters of credit, representing 58.9% of the total available facilities, had been issued (December 31, 2016 - 44.2% (based on total available facilities of \$525.0 million)).

Under the letter of credit facilities, we provide collateral that consists of cash and cash equivalents. As of December 31, 2017, total cash and cash equivalents with a fair value of \$250.5 million (December 31, 2016 - \$231.8 million) was pledged as collateral 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. The collateral amounts securing letters of credit are included in restricted cash and cash equivalents in the 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 December 31, 2017.

## Financial Condition

### Shareholders' equity

As of December 31, 2017, total shareholders' equity was \$1,661.5 million compared to \$1,449.7 million as of December 31, 2016. The increase was primarily due to net income available to Third Point Re common shareholders of \$277.8 million and share compensation expense and proceeds from stock options exercised totaling \$5.1 million, partially offset by share repurchases of \$40.9 million in the year ended December 31, 2017.

### Investments

As of December 31, 2017, total cash and net investments managed by Third Point LLC was \$2,589.9 million, compared to \$2,191.6 million as of December 31, 2016. The increase was primarily due to net investment income on investments managed by Third Point LLC of \$392.0 million and total net contribution of \$12.8 million to our investment account in the year ended December 31, 2017.

### Contractual Obligations

On February 13, 2015, TPRUSA issued Notes in the aggregate principal amount of \$115.0 million. 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 Re, 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 described in the indenture governing the Notes.

The indenture governing the Notes contains customary events of default, and limits our ability to merge or consolidate or to transfer or sell all or substantially all of our assets and TPRUSA's ability to create liens on the voting securities or profit participating equity interests of Third Point Re USA, its wholly-owned insurance subsidiary. In certain circumstances specified in the indenture governing the Notes, certain of our existing or future subsidiaries may be required to guarantee the Notes. Interest on the Notes is subject to adjustment from time to time in the event of a downgrade or subsequent upgrade of the rating assigned to the Notes or in connection with certain changes in the ratio of consolidated total long-term indebtedness to capitalization (each as defined in the indenture governing the Notes). As of December 31, 2017, we were in compliance with all of the covenants under the indenture governing the Notes, and during the twelve months then ended, no event requiring an increase in the interest rate applicable to the Notes occurred.

Our contractual obligations as of December 31, 2017 by estimated maturity are presented below:

|                                                          | Total               | Less than 1<br>year | 1-3 years         | 3-5 years         | More than 5<br>years |
|----------------------------------------------------------|---------------------|---------------------|-------------------|-------------------|----------------------|
|                                                          | (\$ in thousands)   |                     |                   |                   |                      |
| Senior Notes due 2025 <sup>(1)</sup>                     | \$ 115,000          | \$ —                | \$ —              | \$ —              | \$ 115,000           |
| Scheduled interest payments <sup>(1)</sup>               | 60,375              | 8,050               | 16,100            | 16,100            | 20,125               |
| Subtotal - Debt obligations                              | 175,375             | 8,050               | 16,100            | 16,100            | 135,125              |
| Loss and loss adjustment expense reserves <sup>(2)</sup> | 720,570             | 137,167             | 144,834           | 116,661           | 321,908              |
| Other operating agreements <sup>(3)</sup>                | 3,431               | 881                 | 1,856             | 694               | —                    |
| Rental leases <sup>(4)</sup>                             | 2,650               | 871                 | 1,737             | 42                | —                    |
| Deposit liabilities <sup>(5)</sup>                       | 129,133             | 13,376              | 24,456            | 30,688            | 60,613               |
|                                                          | <u>\$ 1,031,159</u> | <u>\$ 160,345</u>   | <u>\$ 188,983</u> | <u>\$ 164,185</u> | <u>\$ 517,646</u>    |

(1) See Note 11 to our consolidated financial statements for detailed information on our Senior Notes.

(2) We have estimated the expected payout pattern of the loss and loss adjustment expense reserves by applying estimated payout patterns by contract. The amount and timing of actual loss payments could differ materially from the estimated payouts in the table above. Refer to "Critical Policies and Accounting Estimates - Loss and Loss Adjustment Expense Reserves" for additional information.

- (3) We have an undivided 31.25% interest in an aircraft with NetJets Sales Inc. ("NetJets"), which expires on August 31, 2021. The agreement with NetJets provides for monthly management fees, occupied hourly fees and other fees. We have a service agreement for IT support services that expires on December 31, 2021
- (4) We lease office space at Point House in Pembroke, Bermuda. This five year lease expires on November 30, 2020. We also lease office space in Summit, New Jersey, U.S.A. This five year lease expires on February 28, 2021.
- (5) See Note 10 to our consolidated financial statements for detailed information on deposit liability contracts. For purposes of this contractual obligations table, we have included estimates of future interest accruals and the amount we expect the deposit liability contracts would settle for at their probable settlement dates.

The contractual obligations table above does not include an estimate of the time period of cash settlement of our \$1.9 million of uncertain tax positions with the respective tax authorities given that we cannot reasonably estimate the timing of potential settlement.

### **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 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 December 31, 2017, we had an unfunded capital commitment of \$3.2 million related to our investment in the Hellenic Fund (see Note 17 to our consolidated financial statements for additional information).

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

See Note 2 to our notes to consolidated financial statements included elsewhere in this Annual Report on Form 10-K for a summary of our significant accounting and reporting policies.

Our 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.

#### ***Premium Revenue Recognition Including Evaluation of Risk Transfer***

For each contract that we write, we estimate the ultimate premium for the entire contract period and record this estimate at the inception of the contract, to the extent the amount of written premium is estimable. For contracts where the full written premium is not estimable at inception, we record written premium for the portion of the contract period for which the amount is estimable. These estimates are based primarily on information in the underlying contracts as well as information provided by our clients and/or brokers. See Note 2 to our consolidated financial statements for additional information on premium revenue recognition.

Changes in premium estimates are expected and may result in adjustments in any reporting period. These estimates change over time as additional information regarding the underlying business volume is obtained. Along with uncertainty regarding the underlying business volume, our contracts also contain a number of contractual features that can significantly impact the amount of premium that we ultimately recognize. These include commutation provisions, multi-year contracts with cancellation provisions and provisions to return premium at the expiration of the contract in certain circumstances. In certain contracts, these provisions can be exercised by the client, in some cases provisions can be exercised by us and in other cases by mutual consent. In addition, we write a small number of large contracts and the majority of our property and casualty reinsurance segment premiums written to date has been quota share business. As a result, we may be subject to greater volatility around our premium estimates compared to other property and casualty companies. We regularly monitor the premium estimates for each of our contracts considering the cash premiums received, reported premiums, discussions with our clients regarding their premium projections as well as

evaluating the potential impact of contractual features. Any subsequent adjustments arising on such estimates are recorded in the period in which they are determined.

Changes in premium estimates may not result in a direct impact to net income or shareholders' equity since changes in premium estimates do not necessarily impact the amount of net premiums earned at the time of the premium estimate change and would generally be offset by proportional changes in acquisition costs and net loss and loss adjustment expenses.

During the year ended December 31, 2017, we recorded \$25.6 million of changes in premium estimates on prior years' contracts (2016 - \$106.6 million and 2015 - \$39.3 million). There was a \$(0.8) million impact on net income of these changes in premium estimates for the year ended December 31, 2017 (2016 - \$1.0 million and 2015 - insignificant impact). See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Property and Casualty Reinsurance" for additional information on changes in premium estimates.

Determining whether or not a reinsurance contract meets the condition for risk transfer requires judgment. The determination of risk transfer is critical to recognizing premiums written and is based, in part, on the use of actuarial pricing models and assumptions and evaluating contractual features that could impact the determination of whether a contract meets risk transfer. If we determine that a reinsurance contract does not transfer sufficient risk, we use deposit accounting. See Note 10 to our consolidated financial statements for additional information on deposit contracts entered into to date.

#### ***Loss and Loss Adjustment Expense Reserves***

See Note 8 to our notes to consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information regarding loss and loss adjustment expense reserves including reserving methodologies and additional information on loss development.

#### ***Sensitivity Analysis***

The table below shows the impact of reasonably likely changes to our actuarial estimates of our client's ceded loss on the following: loss and loss adjustment expense reserves, net; acquisition costs, net; net underwriting loss and shareholders' equity as of and for the year ended December 31, 2017. Since many contracts that we write have sliding scale commissions, profit commissions, loss corridors or other loss mitigating features that adjust with or offset the loss and loss adjustment expenses incurred, we consider these contractual features to be important in understanding the sensitivity of our results to changes in loss ratio assumptions.

The following table illustrates the aggregate impact of a ten percent increase and decrease applied to the subject ultimate loss and loss adjustment expenses, net for each in-force contract in the property and casualty reinsurance segment. In cases where a loss corridor applies, a 10% increase (or decrease) in our estimate of the subject ultimate loss and loss adjustment expenses, net, may not translate to an increase (or decrease) in the assumed loss and loss adjustment expenses, net. In cases where a sliding scale ceding commission or profit commission applies, a 10% increase (or decrease) in our estimate of the subject ultimate loss and loss adjustment expenses, net, does translate to an increase (or decrease) in the assumed loss and loss adjustment expenses, but that increase (or decrease) may be offset by a decrease (or increase) in the acquisition costs, net.

As a result of the contractual features mentioned above, many of our reinsurance contracts provide for a maximum margin. Consequently, our upside potential on these contracts is limited. In these cases, the relative impact of the adverse development scenario is greater than the impact of the favorable development scenario.

These increases and decreases are only applied to contracts where there is still material uncertainty of the outcome. In general, we treat contracts for which the assumed reporting pattern is less than 90% reported as having material uncertainty in the outcome. Assumed ultimate losses and loss adjustment expenses incurred, net, represents the sum we would be obligated to pay for fully developed claims (i.e., paid losses plus outstanding reported losses and IBNR losses). The impact to shareholder's equity does not consider the cash flow, and thus, investment income considerations associated with an increase or decrease in subject ultimate loss and loss adjustment expenses, net.



|                                                | 10% increase in<br>ultimate loss and<br>loss adjustment<br>expenses, net | 10% decrease in<br>ultimate loss and<br>loss adjustment<br>expenses, net |
|------------------------------------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------|
|                                                | (\$ in thousands)                                                        |                                                                          |
| Impact on:                                     |                                                                          |                                                                          |
| Loss and loss adjustment expense reserves, net | \$ 90,996                                                                | \$ (108,235)                                                             |
| Acquisition costs, net                         | (10,719)                                                                 | 38,345                                                                   |
| Increase (decrease) in net underwriting loss   | 80,277                                                                   | (69,890)                                                                 |
| Total shareholders' equity                     | \$ 1,661,496                                                             | \$ 1,661,496                                                             |
| Increase (decrease) in shareholders' equity    | (4.8)%                                                                   | 4.2%                                                                     |

### ***Fair value measurements***

See Note 4 to our consolidated financial statements for additional information on the framework for measuring fair value established by U.S. GAAP disclosure requirements. In addition to the framework discussed in Note 4, we perform several processes to ascertain the reasonableness of the valuation of all of our investments comprising our investment portfolio. These processes include (i) obtaining and reviewing weekly and monthly investment portfolio reports from Third Point LLC, (ii) obtaining and reviewing monthly NAV and investment return reports received directly from the Company's third-party fund administrator, which are compared to the reports noted in (i), and (iii) monthly update discussions with Third Point LLC regarding the investment portfolio, including, their process for reviewing and validating pricing obtained from third party service providers.

### **Recent Accounting Pronouncements**

Refer to Note 2 to our consolidated financial statements for the year ended December 31, 2017 included in Item 8 of this Annual Report on Form 10-K for details of recently issued accounting standards.

### **Item 7A. 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, 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 December 31, 2017, 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 December 31, 2017, a 10% decline

in the value of all equity and equity-linked derivatives would result in a loss of \$203.5 million, or 7.8% 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, \$393.7 million, or 12.5%, were written in currencies other than the U.S. dollar. As of December 31, 2017, loss and loss adjustment expense reserves included \$177.2 million (December 31, 2016 - \$94.5 million) and net reinsurance balances receivable included \$27.0 million (December 31, 2016 - \$5.1 million) in foreign currencies. These foreign currency liability exposures were generally offset by foreign currencies held in trust accounts of \$179.9 million as of December 31, 2017 (December 31, 2016 - \$104.2 million). The foreign currency cash and cash equivalents and investments held in reinsurance trust accounts are included in net investments managed by Third Point LLC. The exposure to foreign currency collateral held in trust accounts is excluded from the foreign currency investment exposure table below.

#### *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 ordinary 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 December 31, 2017, our total net short exposure to foreign denominated securities represented 26.2% (December 31, 2016 - 10.6%) of our investment portfolio including cash and cash equivalents, of \$695.0 million (December 31, 2016 - \$204.0 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 December 31, 2017:

|                         | 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)           |                                                   |                             |                                                   |
| Hong Kong Dollar        | \$ 49,923                   | 1.9 %                                             | \$ (49,923)                 | (1.9)%                                            |
| Chinese Renminbi (Yuan) | 12,912                      | 0.5 %                                             | (12,912)                    | (0.5)%                                            |
| Saudi Arabian Riyal     | 11,363                      | 0.4 %                                             | (11,363)                    | (0.4)%                                            |
| Egyptian Pound          | (2,999)                     | (0.1)%                                            | 2,999                       | 0.1 %                                             |
| Other                   | (1,701)                     | (0.1)%                                            | 1,701                       | 0.1 %                                             |
| Total                   | <u>\$ 69,498</u>            | <u>2.6 %</u>                                      | <u>\$ (69,498)</u>          | <u>(2.6)%</u>                                     |

### Interest Rate Risk

Our investment portfolio includes interest rate sensitive securities, such as corporate bonds, U.S. treasury securities, and sovereign debt instruments, asset-backed securities (“ABS”), and interest rate options and derivatives. 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 effect of interest rate movements 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 December 31, 2017:

|                                                                                | 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 bonds, U.S. treasuries and sovereign debt instruments <sup>(1)</sup> | \$ (8,547)                                 | (0.3)%                                            | \$ 9,022                                   | 0.4 %                                             |
| Asset-backed securities <sup>(2)</sup>                                         | (3,068)                                    | (0.1)%                                            | 3,110                                      | 0.1 %                                             |
| Interest rate swaps and derivatives                                            | 2,582                                      | 0.1 %                                             | (2,582)                                    | (0.1)%                                            |
| Net exposure to interest rate risk                                             | <u>\$ (9,033)</u>                          | <u>(0.3)%</u>                                     | <u>\$ 9,550</u>                            | <u>0.4 %</u>                                      |

(1) Includes interest rate risk associated with investments held in reinsurance trust accounts.

(2) Includes instruments for which durations are available on December 31, 2017. 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 December 31, 2017, our investment portfolio had de minimis (December 31, 2016 - de minimis) commodity exposure.

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 have exposure to credit risk in several reinsurance contracts with companies that write credit risk insurance, which primarily consists of mortgage insurance credit risk. Loss experience in these lines of business is cyclical and is affected by the state of the general economic environment. We provide our clients in these lines of business with reinsurance protection against credit deterioration, defaults or other types of financial non-performance. We mitigate the risks associated with these credit-sensitive lines of business through the use of risk management techniques such as risk diversification, monitoring of risk aggregations and retrocessional coverage. We have written \$262.7 million, or 8.4%, of credit and financial lines premium since inception, of which \$34.3 million was written in the year ended December 31, 2017. The majority of the mortgage insurance premium has been written as quota shares of private mortgage insurers, primarily in the United States.

We have exposure to credit risk as it relates to its business written through brokers, if any of our brokers are unable to fulfill their contractual obligations with respect to payments to us. In addition, in some jurisdictions, if the broker fails to make payments to the insured under our policy, we may remain liable to the insured for the deficiency. Our exposure to such credit risk is somewhat mitigated in certain jurisdictions by contractual terms.

We are exposed to credit risk 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.

### 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 December 31, 2017 and December 31, 2016, the Company's holdings in non-investment grade securities, those having a rating lower than BBB- as determined by Standard & Poor's or Fitch Ratings, Baa3 by Moody's Investor Services and securities not rated by any rating agency, were as follows:

|                         | 2017              | 2016              |
|-------------------------|-------------------|-------------------|
|                         | (\$ in thousands) |                   |
| <b>Assets:</b>          |                   |                   |
| Asset backed securities | \$ 225,499        | \$ 254,852        |
| Bank debt               | 14,550            | 56,896            |
| Corporate bonds         | 77,086            | 189,059           |
| Sovereign debt          | 26,134            | 100,620           |
| Trade claims            | 7,496             | 9,022             |
| Other debt securities   | 5,460             | —                 |
|                         | <u>\$ 356,225</u> | <u>\$ 610,449</u> |
| <b>Liabilities:</b>     |                   |                   |
| Corporate bonds         | \$ 21,699         | \$ 17,683         |
|                         | <u>\$ 21,699</u>  | <u>\$ 17,683</u>  |

As of December 31, 2017 and 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 of December 31, 2017 and 2016, the largest concentration of our asset-backed securities (“ABS”) holdings were as follows:

|                      | 2017              |         | 2016   |                   |
|----------------------|-------------------|---------|--------|-------------------|
|                      | (\$ in thousands) |         |        |                   |
| Reperforming loans   | \$                | 160,354 | 71.1%  | \$ 44,359 17.4%   |
| Subprime RMBS        |                   | —       | —%     | 117,152 46.0%     |
| Market place loans   |                   | 52,584  | 23.3%  | 44,143 17.3%      |
| Other <sup>(1)</sup> |                   | 12,561  | 5.6%   | 49,198 19.3%      |
|                      | \$                | 225,499 | 100.0% | \$ 254,852 100.0% |

(1) Other includes: U.S. Alt-A positions, collateralized debt obligations, commercial mortgage-backed securities, non-U.S. RMBS and student loans ABS.

The Company may also be exposed to non-investment grade securities held within certain investments in limited partnerships and derivatives. As a result of its investment in this type of ABS and certain other non-investment grade securities, our investment portfolio is exposed to 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 and certain other non-investment grade securities 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 loans. As an investor in these classes of ABS and certain other non-investment grade securities, 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 7.5% (December 31, 2016 - 9.7%) of total cash and investments as of December 31, 2017. 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, certain 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 December 31, 2017, we had \$2,202.4 million (December 31, 2016 - \$1,452.3 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 risk 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 limited political risk exposure in several reinsurance contracts with companies that write political risk insurance.

## **Item 8. Financial Statements and Supplementary Data**

See our consolidated financial statements and notes thereto and required financial statement schedules commencing on page F-1.

## **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

Not applicable.

## **Item 9A. Controls and Procedures**

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

Management, with the participation of our Chief Executive Officer and 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 December 31, 2017. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2017.

### **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.

### **Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the company. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's Board of Directors, management and other personnel, 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 and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on its assessment, management concluded that, as of December 31, 2017, our internal control over financial reporting is effective based on those criteria.

Ernst & Young Ltd., an independent registered public accounting firm, which has audited and reported on the consolidated financial statements contained in this Annual Report on Form 10-K, has issued its written attestation report on its assessment of our internal control over financial reporting, which follows this report.

## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors of Third Point Reinsurance Ltd.

### **Opinion on Internal Control over Financial Reporting**

We have audited Third Point Reinsurance Ltd.'s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Third Point Reinsurance Ltd. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Third Point Reinsurance Ltd. as of December 31, 2017 and 2016, and the related consolidated statements of income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedules listed in the Index at Item 15 and our audit report dated March 1, 2018 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young Ltd.

Hamilton, Bermuda  
March 1, 2018

**Item 9B. Other Information**

Not applicable.

**Part III****Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item relating to our directors, executive officers and corporate governance is incorporated by reference to the definitive proxy statement that will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year ended December 31, 2017 pursuant to Regulation 14A.

**Item 11. Executive Compensation**

The information required by this Item relating to executive compensation is incorporated by reference to the definitive proxy statement that will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year ended December 31, 2017 pursuant to Regulation 14A.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters**

Certain information relating to this Item is set forth in this Annual Report under the caption “Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities - Equity Compensation Plan Information”.

The balance of the information required by this Item relating to security ownership of certain beneficial owners and management is incorporated by reference to the definitive proxy statement that will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year ended December 31, 2017 pursuant to Regulation 14A.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item relating to certain relationships and related transactions and director independence is incorporated by reference to the definitive proxy statement that will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year ended December 31, 2017 pursuant to Regulation 14A.

**Item 14. Principal Accounting Fees and Services**

The information required by this Item relating to principal accounting fees and services is incorporated by reference to the definitive proxy statement that will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year ended December 31, 2017 pursuant to Regulation 14A.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

#### Financial Statements, Financial Statement Schedules and Exhibits

##### *Financial Statements and Financial Statement Schedules*

See the Index to Consolidated Financial Statements and Supplemental Data on page F-1.

##### *Exhibits*

| <u>Exhibit<br/>Number</u> | <u>Description</u>                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1*                      | <a href="#"><u>Memorandum of Association of Third Point Reinsurance Ltd.</u></a>                                                                                                                                                                                                                                                                                                                                                    |
| 3.1.1                     | <a href="#"><u>Certificate of Deposit of Memorandum of Increase of Share Capital of Third Point Reinsurance Ltd. (incorporated by reference to Exhibit 3.1.1 to the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2014)</u></a>                                                                                                                                                                           |
| 3.2                       | <a href="#"><u>Bye-laws of Third Point Reinsurance Ltd. (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2014)</u></a>                                                                                                                                                                                                                                      |
| 3.3                       | <a href="#"><u>Certificate of Incorporation of Third Point Re (USA) Holdings Inc. (incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K filed on February 27, 2015)</u></a>                                                                                                                                                                                                                         |
| 3.4                       | <a href="#"><u>Bylaws of Third Point Re (USA) Holdings Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on January 20, 2015)</u></a>                                                                                                                                                                                                                                   |
| 4.1*                      | <a href="#"><u>Specimen Common Share Certificate</u></a>                                                                                                                                                                                                                                                                                                                                                                            |
| 4.2*                      | <a href="#"><u>Registration Rights Agreement, by and among Third Point Reinsurance Ltd. and each of the Members, dated as of December 22, 2011</u></a>                                                                                                                                                                                                                                                                              |
| 4.3*                      | <a href="#"><u>Warrant to Purchase Common Shares issued to KEP TP Holdings, L.P., dated as of December 22, 2011</u></a>                                                                                                                                                                                                                                                                                                             |
| 4.4*                      | <a href="#"><u>Warrant to Purchase Common Shares issued to KIA TP Holdings, L.P., dated as of December 22, 2011</u></a>                                                                                                                                                                                                                                                                                                             |
| 4.5*                      | <a href="#"><u>Warrant to Purchase Common Shares issued to Pine Brook LVR, L.P., dated as of December 22, 2011</u></a>                                                                                                                                                                                                                                                                                                              |
| 4.6*                      | <a href="#"><u>Warrant to Purchase Common Shares issued to P RE Opportunities Ltd., dated as of December 22, 2011</u></a>                                                                                                                                                                                                                                                                                                           |
| 4.7*                      | <a href="#"><u>Warrant Subscription Agreement, by and among Third Point Reinsurance Ltd. and each of the signatories thereto, dated as of December 22, 2011</u></a>                                                                                                                                                                                                                                                                 |
| 4.8*                      | <a href="#"><u>Agreement among Members by and among Third Point Reinsurance Ltd. and each of the Members, dated as of December 22, 2011</u></a>                                                                                                                                                                                                                                                                                     |
| 4.9                       | <a href="#"><u>Amended and Restated Founders Agreement, by and among Third Point Reinsurance Company Ltd., Third Point Reinsurance (USA) Ltd., KEP TP Bermuda Ltd., KIA TP Bermuda Ltd., Pine Brook LVR, L.P., P RE Opportunities Ltd. and Dowling Capital Partners I, L.P. dated as of February 25, 2015 (incorporated by reference to Exhibit 4.9 to the Company's Annual Report on Form 10-K filed on February 27, 2015)</u></a> |
| 4.10                      | <a href="#"><u>Senior Indenture, dated as of February 13, 2015, among Third Point Re (USA) Holdings Inc., as issuer, Third Point Reinsurance Ltd., as guarantor, and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on February 13, 2015)</u></a>                                                                                 |
| 4.11                      | <a href="#"><u>First Supplemental Indenture, dated as of February 13, 2015, among Third Point Re (USA) Holdings Inc., as issuer, Third Point Reinsurance Ltd., as guarantor, and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on February 13, 2015)</u></a>                                                                     |
| 4.12                      | <a href="#"><u>7.00% Senior Note due 2025 (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on February 13, 2015)</u></a>                                                                                                                                                                                                                                                    |

- 10.1\* [Amended and Restated Joint Venture and Investment Management Agreement, dated as of June 22, 2016, by and among Third Point Reinsurance Ltd., Third Point Reinsurance Company, Ltd., Third Point Advisors LLC and Third Point LLC \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 28, 2016\)](#)
- 10.1.1 [Amended and Restated Joint Venture and Investment Management Agreement, dated as of June 22, 2016, by and among Third Point Reinsurance \(USA\) Ltd., Third Point Re \(USA\) Holdings Inc., Third Point LLC and Third Point Advisors LLC \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on June 28, 2016\)](#)
- 10.2\* & \*\* [Employment Agreement between Third Point Reinsurance Ltd. and John R. Berger, dated as of December 22, 2011](#)
- 10.2.1\*\* [Amendment No. 1 to Employment Agreement between Third Point Reinsurance Ltd. and John Berger, dated as of December 22, 2014 \(incorporated by reference to Exhibit 10.2.1 to the Company's Annual Report on Form 10-K filed on February 27, 2015\)](#)
- 10.2.2\*\* [Amendment No. 2 to Employment Agreement between Third Point Reinsurance Ltd. and John Berger, dated as of March 1, 2015 \(incorporated by reference to Exhibit 10.2.2 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2015\)](#)
- 10.2.3\*\* [Amendment No. 3 to Employment Agreement between Third Point Reinsurance Ltd. and John Berger, dated as of November 24, 2015](#)
- 10.2.4 [Chairman Agreement between Third Point Reinsurance Ltd. and John R. Berger, entered into on March 17, 2017, effective as of March 1, 2017](#)
- 10.3\* & \*\* [Employment Agreement between Third Point Reinsurance Ltd. and J. Robert Bredahl, dated as of January 26, 2012](#)
- 10.3.1\*\* [Amendment No. 1 to Employment Agreement between Third Point Reinsurance Ltd. and J. Robert Bredahl, dated as of November 10, 2014 \(incorporated by reference to Exhibit 10.3.1 to the Company's Annual Report on Form 10-K filed on February 27, 2015\)](#)
- 10.3.2\*\* [Amendment No. 2 to Employment Agreement between Third Point Reinsurance Ltd. and J. Robert Bredahl, dated as of March 1, 2015 \(incorporated by reference to Exhibit 10.3.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 8, 2015\)](#)
- 10.3.3\*\* [Amendment No. 3 to Employment Agreement between Third Point Reinsurance Ltd. and J. Robert Bredahl, dated as of November 24, 2015 \(incorporated by reference to Exhibit 10.3.3 to the Company's Annual Report on Form 10-K filed with the SEC on February 26, 2016\)](#)
- 10.3.4\*\* [Amendment No. 4 to Employment Agreement between Third Point Reinsurance Ltd. and J. Robert Bredahl, dated as of May 4, 2016 \(incorporated by reference to Exhibit 10.3.4 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 5, 2016\)](#)
- 10.3.5\*\* [Amendment No. 5 to Employment Agreement between Third Point Reinsurance Ltd. and J. Robert Bredahl, dated as September 26, 2016 \(incorporated by reference to Exhibit 10.3.5 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 4, 2016\)](#)
- 10.3.6 [Employment Agreement between Third Point Reinsurance Ltd. and J. Robert Bredahl, entered into on March 17, 2017, effective as of March 1, 2017](#)
- 10.4\* & \*\* [Employment Agreement between Third Point Reinsurance Ltd. and Daniel Victor Malloy III, dated as of January 23, 2012](#)
- 10.4.1\*\* [Amendment No. 1 to Employment Agreement between Third Point Reinsurance Ltd. and Daniel Victor Malloy III, dated as of April 1, 2015 \(incorporated by reference to Exhibit 10.4.1 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2015\)](#)
- 10.4.2\*\* [Amendment No. 2 to Employment Agreement between Third Point Reinsurance Ltd. and Daniel Victor Malloy III dated as of May 4, 2016 \(incorporated by reference to Exhibit 10.4.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 5, 2016\)](#)
- 10.4.3\*\* [Amendment No. 3 to Employment Agreement between Third Point Reinsurance Ltd. and Daniel Victor Malloy III, entered into on March 17, 2017, effective as of March 1, 2017](#)
- 10.4.4\*\* [Amendment No. 4 to Employment Agreement between Third Point Reinsurance Ltd. and Daniel Victor Malloy III, entered into as of August 3, 2017.](#)
- 10.5\* & \*\* [Share Incentive Plan](#)
- 10.6\* & \*\* [Form of Restricted Share Award Agreement](#)

- 10.6.1\*\* [Form of Director Service Restricted Share Award Agreement \(incorporated by reference to Exhibit 10.6.1 to the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2014\)](#)
- 10.6.2\*\* [Form of Employee Restricted Share Award Agreement \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed with the SEC on January 6, 2015\)](#)
- 10.6.3\*\* [Form of Employee Performance Restricted Shares Agreement \(incorporated by reference to Exhibit 10.6.3 to the Company's Annual Report on Form 10-K filed on February 27, 2015\)](#)
- 10.6.4\*\* [Amendment to Form of Employee Performance Restricted Shares Agreement \(incorporated by reference to Exhibit 10.6.4 to the Company's Annual Report on Form 10-K filed with the SEC on February 26, 2016\)](#)
- 10.6.4.1\*\* [Amendment to Form of Employee Performance Restricted Shares Agreement](#)
- 10.6.5\*\* [Form of Employee Performance Restricted Shares Agreement \(incorporated by reference to Exhibit 10.6.5 to the Company's Annual Report on Form 10-K filed on February 26, 2016\)](#)
- 10.7\* & \*\* [Form of Nonqualified Share Option Agreement under the Share Incentive Plan](#)
- 10.8\*\* [Form of Director Service Agreement \(Adopted November 2013\) \(incorporated by reference to Exhibit 10.8.1 to the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2014\)](#)
- 10.8.1\*\* [Schedule of Signatories to the Director Service Agreement](#)
- 10.9\*\* [Employment agreement between Third Point Reinsurance Ltd. and Nicholas Campbell, dated as of December 13, 2013](#)
- 10.10\*\* [Third Point Reinsurance Ltd. 2013 Omnibus Incentive Plan](#)
- 10.11\*\* [Third Point Reinsurance Ltd. Annual Incentive Plan](#)
- 10.22\* [Trademark License Agreement between Third Point LLC and Third Point Reinsurance Ltd., dated as of December 22, 2011](#)
- 10.23\* [Trademark License Agreement between Third Point LLC and Third Point Reinsurance Company Ltd., dated as of December 22, 2011](#)
- 10.24 [Trademark License Agreement - Joinder Agreement between Third Point LLC, Third Point Reinsurance Company Ltd., Third Point Re \(USA\) Holdings Inc. and Third Point Reinsurance \(USA\) Ltd. dated as of February 17, 2016. \(incorporated by reference to Exhibit 10.8.1 to the Company's Annual Report on Form 10-K filed on February 26, 2016\)](#)
- 10.26\*† [Letter Agreement dated as of December 22, 2011](#)
- 10.27\* & \*\* [Section 409A Specified Employee Policy](#)
- 10.28\* & \*\* [Director and Officer Indemnification Agreement](#)
- 10.28.1\*\* [Schedule of Signatories to the Director and Officer Indemnification Agreement](#)
- 10.29.2\*\* [Amended and Restated Director Compensation Policy \(incorporated by reference to Exhibit 10.29 to the Company's Quarterly Report on Form 10-Q filed on May 5, 2017\)](#)
- 10.30\*\* [Amended and Restated Employment Agreement between Third Point Reinsurance Ltd. and Christopher S. Coleman, dated as of November 10, 2014 \(incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K filed on February 27, 2015\)](#)
- 10.32\*\* [Employment Agreement between Third Point Reinsurance Ltd. and Manoj Gupta, dated as of March 27, 2012 \(incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K filed on February 27, 2015\)](#)
- 10.32.1\*\* [Amendment No. 1 to Employment Agreement between Third Point Reinsurance Ltd. and Manoj Gupta, dated as of February 26, 2015 \(incorporated by reference to Exhibit 10.32.1 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2015\)](#)
- 10.32.2\*\* [Amendment No. 2 to Employment Agreement between Third Point Reinsurance Ltd. and Manoj K. Gupta dated as of April 1, 2016 \(incorporated by reference to Exhibit 10.32.2 to the Company's Quarterly Report on Form 10-Q filed on August 5, 2016\)](#)
- 10.32.3\*\* [Amendment No. 3 to Employment Agreement between Third Point Reinsurance Ltd. and Manoj K. Gupta, entered into on March 17, 2017, effective as of March 1, 2017](#)
- 10.32.4\*\* [Amendment No. 4 to Employment Agreement between Third Point Reinsurance Ltd. and Manoj K. Gupta, entered into as of August 3, 2017](#)

- 12.1 [Computation of Ratio of Earnings to Fixed Charges](#)
- 21.1 [List of Subsidiaries](#)
- 23.1 [Consent of Independent Registered Public Accounting Firm](#)
- 24.1 [Power of Attorney signed by each of the members of the Board of Directors on February 28, 2018](#)
- 31.1 [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.](#)
- 31.2 [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.](#)
- 32.1± [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.](#)
- 32.2± [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.](#)
- 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
  
- \* Incorporated by reference to the exhibit of the same number filed as part of the Company's registration statement on Form S-1 (File No. 333-189960) which was declared effective by the Securities and Exchange Commission on August 14, 2013.
- \*\* Management contracts or compensatory plans or arrangements
- ± This certification accompanies the Form 10-K 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-K), irrespective of any general incorporation language contained in such filing.
- † Registrant has omitted portions of the referenced exhibit pursuant to a request for confidential treatment under Rule 406 promulgated under the Securities Act of 1933, as amended (Securities Act).
- †† In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Pembroke, Bermuda, on March 1, 2018.

THIRD POINT REINSURANCE LTD.

(Registrant)

By: /s/ J. Robert Bredahl  
Name: J. Robert Bredahl  
Title: Director, President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u>                                                   | <u>Title</u>                                                                              | <u>Date</u>   |
|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------|---------------|
| *                                                                  |                                                                                           |               |
| <u>Joshua L. Targoff</u>                                           | Chairman of the Board                                                                     | March 1, 2018 |
| <u>/s/ J. Robert Bredahl</u><br><u>J. Robert Bredahl</u>           | Director, President and Chief Executive Officer<br>(Principal Executive Officer)          | March 1, 2018 |
| <u>/s/ Christopher S. Coleman</u><br><u>Christopher S. Coleman</u> | Chief Financial Officer<br>(Principal Financial Officer and Principal Accounting Officer) | March 1, 2018 |
| *                                                                  |                                                                                           |               |
| <u>Steven E. Fass</u>                                              | Director                                                                                  | March 1, 2018 |
| *                                                                  |                                                                                           |               |
| <u>Rafe de la Gueronniere</u>                                      | Director                                                                                  | March 1, 2018 |
| *                                                                  |                                                                                           |               |
| <u>Mary R. Hennessy</u>                                            | Director                                                                                  | March 1, 2018 |
| *                                                                  |                                                                                           |               |
| <u>Neil McConachie</u>                                             | Director                                                                                  | March 1, 2018 |
| *                                                                  |                                                                                           |               |
| <u>Mark Parkin</u>                                                 | Director                                                                                  | March 1, 2018 |

\* By: /s/ Janice Weidenborner  
Name: Janice Weidenborner  
Title: Attorney-in-Fact

**THIRD POINT REINSURANCE LTD.**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**

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All other schedules and notes specified under Regulation S-X are omitted because they are either not applicable, not required or the information called for therein appears in response to the items in the Consolidated Financial Statements and the related Notes to Consolidated Financial Statements of Third Point Reinsurance Ltd. and its subsidiaries listed on the above index.



## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of Third Point Reinsurance Ltd.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Third Point Reinsurance Ltd. (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017 and the related notes and financial statement schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 1, 2018 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included, evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young Ltd.

We have served as the Company's auditor since 2012.

Hamilton, Bermuda  
March 1, 2018

**THIRD POINT REINSURANCE LTD.  
CONSOLIDATED BALANCE SHEETS**

As of December 31, 2017 and 2016

(expressed in thousands of U.S. dollars, except per share and share amounts)

|                                                                                                                     | December 31,<br>2017 | December 31,<br>2016 |
|---------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>Assets</b>                                                                                                       |                      |                      |
| Equity securities, trading, at fair value (cost - \$1,868,735; 2016 - \$1,385,866)                                  | \$ 2,283,050         | \$ 1,506,854         |
| Debt securities, trading, at fair value (cost - \$711,322; 2016 - \$1,036,716)                                      | 675,158              | 1,057,957            |
| Other investments, at fair value                                                                                    | 37,731               | 82,701               |
| Total investments in securities                                                                                     | 2,995,939            | 2,647,512            |
| Cash and cash equivalents                                                                                           | 8,197                | 9,951                |
| Restricted cash and cash equivalents                                                                                | 541,136              | 298,940              |
| Due from brokers                                                                                                    | 305,093              | 284,591              |
| Derivative assets, at fair value                                                                                    | 73,372               | 27,432               |
| Interest and dividends receivable                                                                                   | 3,774                | 6,505                |
| Reinsurance balances receivable                                                                                     | 476,008              | 381,951              |
| Deferred acquisition costs, net                                                                                     | 258,793              | 221,618              |
| Other assets                                                                                                        | 9,482                | 17,144               |
| <b>Total assets</b>                                                                                                 | <u>\$ 4,671,794</u>  | <u>\$ 3,895,644</u>  |
| <b>Liabilities</b>                                                                                                  |                      |                      |
| Accounts payable and accrued expenses                                                                               | \$ 34,632            | \$ 10,321            |
| Reinsurance balances payable                                                                                        | 41,614               | 43,171               |
| Deposit liabilities                                                                                                 | 129,133              | 104,905              |
| Unearned premium reserves                                                                                           | 649,518              | 557,076              |
| Loss and loss adjustment expense reserves                                                                           | 720,570              | 605,129              |
| Securities sold, not yet purchased, at fair value                                                                   | 394,278              | 92,668               |
| Securities sold under an agreement to repurchase                                                                    | 29,618               | —                    |
| Due to brokers                                                                                                      | 770,205              | 899,601              |
| Derivative liabilities, at fair value                                                                               | 14,503               | 16,050               |
| Interest and dividends payable                                                                                      | 4,275                | 3,443                |
| Senior notes payable, net of deferred costs                                                                         | 113,733              | 113,555              |
| <b>Total liabilities</b>                                                                                            | <u>2,902,079</u>     | <u>2,445,919</u>     |
| Commitments and contingent liabilities                                                                              |                      |                      |
| Redeemable noncontrolling interests in related party                                                                | 108,219              | —                    |
| <b>Shareholders' equity</b>                                                                                         |                      |                      |
| Preference shares (par value \$0.10; authorized, 30,000,000; none issued)                                           | —                    | —                    |
| Common shares (Issued: 2017 - 107,227,347; 2016 - 106,501,299; Outstanding: 2017 - 103,282,427; 2016 - 105,856,531) | 10,723               | 10,650               |
| Treasury shares (2017 - 3,944,920; 2016 - 644,768)                                                                  | (48,253)             | (7,389)              |
| Additional paid-in capital                                                                                          | 1,099,599            | 1,094,568            |
| Retained earnings                                                                                                   | 594,020              | 316,222              |
| <b>Shareholders' equity attributable to Third Point Re common shareholders</b>                                      | <u>1,656,089</u>     | <u>1,414,051</u>     |
| Noncontrolling interests in related party                                                                           | 5,407                | 35,674               |
| <b>Total shareholders' equity</b>                                                                                   | <u>1,661,496</u>     | <u>1,449,725</u>     |
| <b>Total liabilities, noncontrolling interests and shareholders' equity</b>                                         | <u>\$ 4,671,794</u>  | <u>\$ 3,895,644</u>  |

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

**THIRD POINT REINSURANCE LTD.**  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**  
For the years ended December 31, 2017, 2016 and 2015  
(expressed in thousands of U.S. dollars, except per share and share amounts)

|                                                                                                        | 2017              | 2016             | 2015               |
|--------------------------------------------------------------------------------------------------------|-------------------|------------------|--------------------|
| <b>Revenues</b>                                                                                        |                   |                  |                    |
| Gross premiums written                                                                                 | \$ 641,620        | \$ 617,374       | \$ 702,414         |
| Gross premiums ceded                                                                                   | (2,475)           | (2,325)          | (1,876)            |
| Net premiums written                                                                                   | 639,145           | 615,049          | 700,538            |
| Change in net unearned premium reserves                                                                | (92,087)          | (24,859)         | (97,714)           |
| Net premiums earned                                                                                    | 547,058           | 590,190          | 602,824            |
| Net investment income before management and performance fees to related parties                        | 522,664           | 158,532          | 15,203             |
| Management and performance fees to related parties                                                     | (130,711)         | (59,707)         | (43,277)           |
| Net investment income (loss)                                                                           | 391,953           | 98,825           | (28,074)           |
| Total revenues                                                                                         | 939,011           | 689,015          | 574,750            |
| <b>Expenses</b>                                                                                        |                   |                  |                    |
| Loss and loss adjustment expenses incurred, net                                                        | 370,058           | 395,932          | 415,191            |
| Acquisition costs, net                                                                                 | 188,904           | 222,150          | 191,216            |
| General and administrative expenses                                                                    | 53,103            | 39,367           | 46,033             |
| Other expenses                                                                                         | 12,674            | 8,387            | 8,614              |
| Interest expense                                                                                       | 8,225             | 8,231            | 7,236              |
| Foreign exchange (gains) losses                                                                        | 12,300            | (19,521)         | (3,196)            |
| Total expenses                                                                                         | 645,264           | 654,546          | 665,094            |
| Income (loss) before income tax (expense) benefit                                                      | 293,747           | 34,469           | (90,344)           |
| Income tax (expense) benefit                                                                           | (11,976)          | (5,593)          | 2,905              |
| <b>Net income (loss)</b>                                                                               | 281,771           | 28,876           | (87,439)           |
| Net (income) loss attributable to noncontrolling interests in related party                            | (3,973)           | (1,241)          | 49                 |
| <b>Net income (loss) available to Third Point Re common shareholders</b>                               | <u>\$ 277,798</u> | <u>\$ 27,635</u> | <u>\$ (87,390)</u> |
| <b>Earnings (loss) per share available to Third Point Re common shareholders</b>                       |                   |                  |                    |
| Basic earnings (loss) per share available to Third Point Re common shareholders                        | \$ 2.71           | \$ 0.26          | \$ (0.84)          |
| Diluted earnings (loss) per share available to Third Point Re common shareholders                      | \$ 2.64           | \$ 0.26          | \$ (0.84)          |
| <b>Weighted average number of common shares used in the determination of earnings (loss) per share</b> |                   |                  |                    |
| Basic                                                                                                  | 102,264,094       | 104,060,052      | 104,003,820        |
| Diluted                                                                                                | 105,227,038       | 105,563,784      | 104,003,820        |

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

**THIRD POINT REINSURANCE LTD.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
For the years ended December 31, 2017, 2016 and 2015  
(expressed in thousands of U.S. dollars)

|                                                                                | 2017         | 2016         | 2015         |
|--------------------------------------------------------------------------------|--------------|--------------|--------------|
| <b>Common shares</b>                                                           |              |              |              |
| Balance, beginning of year                                                     | \$ 10,650    | \$ 10,548    | \$ 10,447    |
| Issuance of common shares, net                                                 | 73           | 102          | 101          |
| Balance, end of year                                                           | 10,723       | 10,650       | 10,548       |
| <b>Treasury shares</b>                                                         |              |              |              |
| Balance, beginning of year                                                     | (7,389)      | —            | —            |
| Repurchase of common shares                                                    | (40,864)     | (7,389)      | —            |
| Balance, end of year                                                           | (48,253)     | (7,389)      | —            |
| <b>Additional paid-in capital</b>                                              |              |              |              |
| Balance, beginning of year                                                     | 1,094,568    | 1,080,591    | 1,065,489    |
| Issuance of common shares, net                                                 | 1,432        | 5,039        | 4,231        |
| Share compensation expense                                                     | 3,599        | 8,938        | 10,871       |
| Balance, end of year                                                           | 1,099,599    | 1,094,568    | 1,080,591    |
| <b>Retained earnings</b>                                                       |              |              |              |
| Balance, beginning of year                                                     | 316,222      | 288,587      | 375,977      |
| Net income (loss)                                                              | 281,771      | 28,876       | (87,439)     |
| Net (income) loss attributable to noncontrolling interests in related party    | (3,973)      | (1,241)      | 49           |
| Balance, end of year                                                           | 594,020      | 316,222      | 288,587      |
| <b>Shareholders' equity attributable to Third Point Re common shareholders</b> | 1,656,089    | 1,414,051    | 1,379,726    |
| Noncontrolling interests in related party                                      | 5,407        | 35,674       | 16,157       |
| <b>Total shareholders' equity</b>                                              | \$ 1,661,496 | \$ 1,449,725 | \$ 1,395,883 |

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

**THIRD POINT REINSURANCE LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2017, 2016 and 2015  
(expresses in thousands of U.S. dollars, except per share and share amounts)

|                                                                                                    | 2017            | 2016            | 2015             |
|----------------------------------------------------------------------------------------------------|-----------------|-----------------|------------------|
| <b>Operating activities</b>                                                                        |                 |                 |                  |
| Net income (loss)                                                                                  | \$ 281,771      | \$ 28,876       | \$ (87,439)      |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                 |                 |                  |
| Share compensation expense                                                                         | 3,599           | 8,938           | 10,871           |
| Net interest expense (income) on deposit liabilities                                               | 2,800           | (164)           | 6,471            |
| Net unrealized (gain) loss on investments and derivatives                                          | (255,029)       | (72,083)        | 32,354           |
| Net realized gain on investments and derivatives                                                   | (225,016)       | (33,179)        | (16,655)         |
| Net foreign exchange (gains) losses                                                                | 12,300          | (19,521)        | (3,196)          |
| Amortization of premium and accretion of discount, net                                             | 473             | 5,118           | 324              |
| <b>Changes in assets and liabilities:</b>                                                          |                 |                 |                  |
| Reinsurance balances receivable                                                                    | (86,606)        | (86,612)        | 8,768            |
| Deferred acquisition costs, net                                                                    | (37,175)        | (24,525)        | (41,192)         |
| Other assets                                                                                       | 7,671           | (5,003)         | (7,815)          |
| Interest and dividends receivable, net                                                             | 3,563           | 3,225           | (4,382)          |
| Unearned premium reserves                                                                          | 92,442          | 25,366          | 97,901           |
| Loss and loss adjustment expense reserves                                                          | 97,922          | 156,644         | 192,433          |
| Accounts payable and accrued expenses                                                              | 24,212          | (2,095)         | 1,881            |
| Reinsurance balances payable                                                                       | (1,463)         | 19,786          | (2,548)          |
| Net cash provided by (used in) operating activities                                                | (78,536)        | 4,771           | 187,776          |
| <b>Investing activities</b>                                                                        |                 |                 |                  |
| Purchases of investments                                                                           | (3,099,525)     | (3,729,944)     | (3,360,626)      |
| Proceeds from sales of investments                                                                 | 3,228,251       | 3,504,598       | 2,829,523        |
| Purchases of investments to cover short sales                                                      | (791,753)       | (1,264,404)     | (543,936)        |
| Proceeds from short sales of investments                                                           | 1,048,552       | 1,046,422       | 792,344          |
| Change in due to/from brokers, net                                                                 | (149,898)       | 367,019         | (6,377)          |
| Decrease in securities purchased under an agreement to sell                                        | —               | —               | 29,852           |
| Increase (decrease) in securities sold under an agreement to repurchase                            | 29,618          | (8,944)         | 8,944            |
| Change in restricted cash and cash equivalents                                                     | (242,196)       | 31,975          | 86,392           |
| Net cash provided by (used in) investing activities                                                | 23,049          | (53,278)        | (163,884)        |
| <b>Financing activities</b>                                                                        |                 |                 |                  |
| Proceeds from issuance of Third Point Re common shares, net of costs                               | 1,505           | 5,141           | 4,332            |
| Purchases of Third Point Re common shares under share repurchase program                           | (40,864)        | (7,389)         | —                |
| Proceeds from issuance of senior notes payable, net of costs                                       | —               | —               | 113,220          |
| Increase (decrease) in deposit liabilities, net                                                    | 19,113          | 22,023          | (65,842)         |
| Change in total noncontrolling interests in related party, net                                     | 73,979          | 18,276          | (24,137)         |
| Noncontrolling interest in Catastrophe Fund and Catastrophe Fund Manager                           | —               | —               | (59,792)         |
| Net cash provided by (used in) financing activities                                                | 53,733          | 38,051          | (32,219)         |
| Net decrease in cash and cash equivalents                                                          | (1,754)         | (10,456)        | (8,327)          |
| Cash and cash equivalents at beginning of year                                                     | 9,951           | 20,407          | 28,734           |
| <b>Cash and cash equivalents at end of year</b>                                                    | <b>\$ 8,197</b> | <b>\$ 9,951</b> | <b>\$ 20,407</b> |
| <b>Supplementary information</b>                                                                   |                 |                 |                  |
| Interest paid in cash                                                                              | \$ 21,394       | \$ 23,027       | \$ 9,311         |
| Income taxes paid in cash                                                                          | \$ 7,810        | \$ 5,950        | \$ 4,429         |

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

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

**1. Organization**

Third Point Reinsurance Ltd. (together with its wholly and majority owned subsidiaries, “Third Point Re” or 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 BDA”), 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 Re.

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”). In May 2013, TPRUK was licensed as an insurance intermediary by the UK Financial Conduct Authority.

In August 2013, the Company completed an initial public offering (“IPO”) of 24,832,484 common shares at an offering price of \$12.50 per share. The net proceeds of the offering were \$286.0 million, after deducting offering costs. The Company’s common shares are listed on the New York Stock Exchange (“NYSE”) under the symbol “TPRE”.

These consolidated financial statements include the results of Third Point Re 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”). All intercompany accounts and transactions have been eliminated.

**2. Significant accounting policies**

The following is a summary of the significant accounting and reporting policies adopted by the Company:

**Use of estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The major estimates reflected in the Company’s consolidated financial statements include, but are not limited to, the loss and loss adjustment expense reserves, estimates of written and earned premiums and fair value of financial instruments.

### **Cash and restricted cash and cash equivalents**

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.

Restricted cash and cash equivalents consist of cash held in trust accounts securing obligations under certain reinsurance contracts and cash held with brokers and in trust accounts securing letters of credit issued under credit facilities.

### **Premium revenue recognition**

To the extent that the amount of written premium is estimable, the Company estimates the ultimate premiums for the entire contract period and records this estimate at the inception of the contract. For contracts where the full written premium is not estimable at inception, the Company records written premium for the portion of the contract period for which the amount is estimable. These estimates are based primarily on information in the underlying contracts as well as information provided by clients and/or brokers.

Changes in premium estimates are expected and may result in adjustments in any reporting period. These estimates change over time as additional information regarding the underlying business volume is obtained. Any subsequent adjustments arising on such estimates are recorded in the period in which they are determined.

Premiums written are earned over the exposure period in proportion to the period of risk covered. Unearned premiums represent the portion of premiums written that relate to the remaining term of the underlying policies in force.

Premiums for retroactive exposures in reinsurance contracts are earned at the inception of the contract, as all of the underlying loss events covered by these exposures occurred in the past. If the estimated loss and loss adjustment expense reserve differs from the premium received at inception of a retroactive reinsurance contract, the resulting difference is deferred and recognized over the estimated claim payment period of the related contract with the periodic amortization reflected in earnings as a component of loss and loss adjustment expenses incurred.

### **Reinsurance premiums ceded**

From time to time, the Company reduces the risk of losses on business written by reinsuring certain risks and exposures with other reinsurers. The Company remains liable to the extent that any retrocessionaire fails to meet its obligations and to the extent that the Company does not hold sufficient security for their unpaid obligations. Ceded premiums are written during the period in which the risks incept and are earned over the contract period in proportion to the period of risk covered. Unearned premiums ceded consist of the unexpired portion of reinsurance ceded.

### **Deferred acquisition costs**

Acquisition costs consist of commissions, brokerage and excise taxes that are related directly to the successful acquisition of new or renewal reinsurance contracts. These costs are deferred and amortized over the period in which the related premiums are earned. The Company evaluates the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment income is greater than expected future loss and loss adjustment expenses and acquisition costs. If a loss is probable on the unexpired portion of contracts in force, a premium deficiency loss is recognized. As of December 31, 2017, deferred acquisition costs are considered to be fully recoverable and no premium deficiency has been recorded.

Acquisition costs also include profit commissions that are expensed when incurred. Profit commissions are calculated and accrued based on the expected loss experience for contracts and recorded when the current loss estimate indicates that a profit commission is probable under the contract terms.

### **Loss and loss adjustment expense reserves**

The Company's loss and loss adjustment expense reserves include case reserves, reserves for losses incurred but not yet reported ("IBNR reserves") and deferred gains on retroactive reinsurance contracts. Case reserves are established for losses that have been reported, but not yet paid. IBNR reserves represent the estimated loss and loss adjustment expenses that have been incurred by insureds and reinsureds but not yet reported to the insurer or reinsurer, including

unknown future development on loss and loss adjustment expenses that are known to the insurer or reinsurer. IBNR reserves are established by management based on actuarially determined estimates of ultimate loss and loss adjustment expenses. Deferred gains represent the underwriting profit related to retroactive exposures in reinsurance contracts at inception and are deferred and amortized over the estimated future settlement period of the contract. Deferred gains are included in loss and loss adjustment expense reserves. If the premium received is lower than the estimated loss and loss adjustment expense reserves assumed at inception of a retroactive reinsurance contract, the resulting difference is deferred and recorded in other assets. This difference is also amortized over the estimated future settlement period of the contract.

Inherent in the estimate of ultimate loss and loss adjustment expenses are expected trends in claim severity and frequency and other factors that may vary significantly as claims are settled. Accordingly, ultimate loss and loss adjustment expenses may differ materially from the amounts recorded in the consolidated financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are recorded in the consolidated statements of income (loss) in the period in which they become known.

### **Deposit liabilities**

Certain contracts do not transfer sufficient insurance risk to be deemed reinsurance contracts and are accounted for using the deposit method of accounting. Management exercises judgment in determining whether contracts transfer sufficient risk to be accounted for as reinsurance contracts. Using the deposit method of accounting, a deposit liability, rather than written premium, is initially recorded based upon the consideration received less any explicitly identified premiums or fees. In subsequent periods, the deposit liability is adjusted by calculating the effective yield on the deposit to reflect actual payments to date and future expected payments. In some cases, the effective yield on the contract may be negative, which will result in the recognition of other income.

### **Fair value measurement**

The Company determines the fair value of financial instruments in accordance with current accounting guidance, which defines fair value and establishes a three level fair value hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Fair value is defined as the price that the Company would receive to sell an asset or would pay to transfer a liability in an orderly transaction between market participants at the measurement date. The Company determines the estimated fair value of each individual security utilizing the highest level inputs available.

The fair value of the Company's assets and liabilities, which qualify as financial instruments, approximates the carrying amounts presented in the consolidated balance sheets.

### **Investments**

The Company's investments are classified as "trading securities" and are carried at fair value with changes in fair value included in earnings in the consolidated statements of income (loss).

The fair value of the Company's investments are based on quoted market prices, or when such prices are not available, by reference to broker or underwriter bid indications, industry recognized pricing vendors, and/or internal pricing valuation techniques. Investment transactions are recorded on a trade date basis with balances pending settlement included in due to/from brokers in the consolidated balance sheets.

Realized gains and losses are determined using cost calculated on a specific identification basis. Dividends are recorded on the ex-dividend date. Income and expenses are recorded on the accrual basis including interest and premiums amortized and discounts accreted.



## **Derivatives**

### ***Investments***

Derivative instruments within our investment assets managed by our investment manager, Third Point LLC, are recorded in the consolidated balance sheets at fair value, with changes in fair values and realized gains and losses recognized in net investment income (loss) in the consolidated statements of income (loss).

Derivatives serve as a key component of the Company's investment strategy and are utilized primarily to structure the portfolio, or individual investments, and to economically match the investment objectives of the Company. The Company's derivatives do not qualify as hedges for financial reporting purposes and are recorded in the consolidated balance sheets on a gross basis and not offset against any collateral pledged or received. Pursuant to the International Swaps and Derivatives Association ("ISDA") master agreements, securities lending agreements and other derivatives 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, securities lending agreements or other derivatives agreements defaults, or a transaction is otherwise subject to termination, the non-defaulting party generally has the right to set off against payments owed to the defaulting party or collateral held by the non defaulting party.

The Company enters into derivative contracts to manage credit risk, interest rate risk, currency exchange risk and other exposure risks. The Company uses derivatives in connection with its risk-management activities to economically hedge certain risks and to gain exposure to certain investments. The utilization of derivative contracts also allows for an efficient means by which to trade certain asset classes.

Fair values of derivatives are determined by using quoted market prices, industry recognized pricing vendors and counterparty quotes when available; otherwise fair values are based on pricing models that consider the time value of money, volatility and the current market and contractual prices of underlying financial instruments.

### ***Embedded derivatives***

Certain of the Company's reinsurance contracts contain interest crediting features that vary based on the net investment return on investments managed by Third Point LLC. These contractual features are considered embedded derivatives in accordance with U.S. GAAP. We include the estimated fair value of these embedded derivatives in the consolidated balance sheets with the host contract in order to reflect the expected settlement of these features with the host contract. The change in estimated fair value of these embedded derivatives are recorded in other expenses in the consolidated statements of income (loss).

## **Share-based compensation**

The Company accounts for its share-based compensation transactions using the fair value of the award at the grant date and accounts for forfeitures when they occur. Determining the fair value of share purchase options at the grant date requires estimation and judgment. The Company uses an option-pricing model (Black-Scholes) to calculate the fair value of share purchase options.

For share purchase options or restricted share awards granted that contain both a service and performance condition, the Company recognizes share compensation expense only for the portion of the options or restricted share awards that are considered probable of vesting. Share compensation for share purchase options or restricted share awards considered probable of vesting is expensed over the service (vesting) period on a graded vesting basis. The probability of share purchase options or restricted share awards vesting is evaluated at each reporting period. When the share purchase options or restricted share awards are considered probable of vesting, the Company records a true up of share compensation expense from the grant date (service inception date) to the current reporting period end based on the fair value of the options or restricted share awards at the grant date.

The Company measures grant date fair value for restricted share awards, with a service condition only, based on the price of its common shares at the grant date and the expense is recognized on a straight-line basis over the vesting period.

## **Warrants**

The Company accounts for warrant contracts issued to certain of its founding investors (“Founders”) in conjunction with the initial capitalization of the Company by using either the physical settlement or net-share settlement methods. The fair value of these warrants was recorded in equity as additional paid-in capital. The fair value of warrants issued are estimated on the grant date using the Black-Scholes option-pricing model.

The Company accounts for certain warrant contracts issued to an advisor, where services have been received by the Company, in part, in exchange for equity instruments, based on the fair value of such services. The associated cost of these warrants has been recorded as capital raise costs and is included in additional paid in capital in the consolidated statements of shareholders’ equity.

## **Debt offering costs**

Costs incurred in issuing debt, which includes underwriters’ fees, legal and accounting fees, printing and other fees are capitalized and presented as a direct deduction from the principal amount of senior notes payable in the consolidated balance sheets. These costs are amortized over the term of the debt and are included in interest expense in the consolidated statements of income (loss).

## **Other expenses**

Other expenses are comprised of expenses relating to interest crediting features in certain reinsurance and deposit contracts as well as changes in value of embedded derivatives in reinsurance contracts and deposit liability contracts that have variable interest crediting features. Variable and fixed interest crediting features are calculated on funds transferred to the Company where interest is credited based on actual cash received into a notional experience account. The ceding company can typically elect to commute at specific points in time in exchange for the amounts held in the notional experience account. For those contracts that contain variable interest crediting features, actual investment returns realized by the Company are included in the calculation, which can increase the overall effective interest crediting rate on those contracts. Variable interest credit features are accounted for as embedded derivatives. Fixed interest credits on reinsurance contracts and deposit liability contracts and changes in value of embedded derivative are included other expenses in the consolidated statements of income (loss).

## **Foreign currency transactions**

The Company’s functional currency is the U.S. dollar. Transactions involving monetary assets and liabilities denominated in foreign currencies have been converted into U.S. dollars at the exchange rate in effect on the balance sheet date, and the related revenues and expenses are converted using specific rates for the period, as appropriate. Net foreign currency transaction gains and losses arising from these activities are reported in the consolidated statements of income (loss) in the period in which they arise.

Certain of the Company’s investments are denominated in foreign currencies and thus, are subject to the risk associated with foreign currency fluctuations. These investments are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of investments and income and expenses denominated in foreign currencies are translated in U.S. dollar amounts on the respective dates of such transactions. The Company does not isolate the portion of the net investment income (loss) resulting from changes in foreign exchange rates on investments, dividends and interest from the fluctuations arising from changes in fair values of securities and derivatives held within the total net investments managed by Third Point LLC. Periodic payments received or paid on swap agreements are recorded as realized gain or loss on investment transactions. Such fluctuations are included within net investment income (loss) in the consolidated statements of income (loss).

## **Income taxes, withholding taxes and uncertain tax positions**

The Company provides for income taxes for its operations in income tax paying jurisdictions. The Company’s provision relies on estimates and interpretations of currently enacted tax laws. The Company recognizes deferred tax assets and liabilities based on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Such temporary differences are primarily due to tax basis discounts on loss and loss adjustment expense reserves and unearned premiums, deferred acquisition costs and unrealized gains (losses) on investments. A

valuation allowance against deferred tax assets is recorded if it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized. Any adjustments to deferred income taxes are accounted for as changes in estimates and are reflected in the consolidated statements of income (loss) in the year in which they are made. Adjustments could be material and could significantly impact earnings in the year they are recorded.

The Company is subject to withholding tax obligations related to dividends, capital gains and interest on certain investments. These withholding taxes are recorded when they become payable and are included in income tax expense (benefit) in the Company's consolidated statements of income (loss).

The Company has recognized uncertain tax positions related to certain investment transactions in foreign jurisdictions. The Company records its uncertain tax positions based on an estimate of the potential liability, including potential interests and penalties, arising from its investment transactions conducted in foreign countries. The changes in the Company's uncertain tax position is included in income tax expense (benefit) in the Company's consolidated statements of income (loss).

### **Noncontrolling interests in related party**

The Company consolidates the results of entities in which it has a controlling financial interest. Redeemable noncontrolling interests with redemption features that are not solely within the Company's control are presented as a mezzanine item, between liabilities and shareholders' equity, in the Company's consolidated balance sheets and non-redeemable noncontrolling interests are presented as a separate line within shareholders' equity in the consolidated balance sheets. The Company records the portion of net (income) loss attributable to noncontrolling interests in related party as a separate line within the consolidated statements of income (loss).

#### *Changes in the presentation of noncontrolling interests*

During the year ended December 31, 2017, the Company identified that a portion of its noncontrolling interests were redeemable. See additional information regarding noncontrolling interests in Note 17. This portion of the noncontrolling interests had previously been presented in noncontrolling interests to related party within shareholders' equity when it should have been presented in the mezzanine section of the consolidated balance sheet as redeemable noncontrolling interests in related party. As of December 31, 2016, \$31.2 million of the noncontrolling interests in related party should have been presented in the mezzanine section of the consolidated balance sheet as redeemable noncontrolling interests in related party and should have been excluded from noncontrolling interests in related party in shareholders' equity. Although this impacted total shareholders' equity, it did not impact shareholders' equity attributable to Third Point Re common shareholders or retained earnings. In addition, this change did not impact the consolidated statements of income, earnings per share or consolidated statement of cash flows. The Company has evaluated the effect of the incorrect presentation, both qualitatively and quantitatively, and concluded that it did not have a material impact on, nor require amendment of, any previously filed annual or quarterly consolidated financial statements.

### **Earnings (loss) per share**

Basic earnings (loss) per share is based on the weighted average number of common shares and participating securities outstanding during the period. The weighted average number of common shares excludes any dilutive effect of outstanding warrants, options and unvested restricted shares. Diluted earnings (loss) per share is based on the weighted average number of common shares and participating securities outstanding and includes any dilutive effects of warrants, options and unvested restricted shares under share plans and are determined using the treasury stock method. U.S. GAAP requires that unvested share awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (referred to as "participating securities"), be treated in the same manner as outstanding shares for earnings per share calculations. The Company treats certain of its unvested restricted shares as participating securities. In the event of a net loss, all participating securities, outstanding warrants, options and restricted shares are excluded from both basic and diluted loss per share since their inclusion would be anti-dilutive.

## **Leases**

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in the consolidated statements of income (loss) on a straight-line basis over the term of the lease.

## **Comprehensive income**

The Company has no comprehensive income other than net income disclosed in the consolidated statements of income (loss).

## **Segment information**

Under U.S. GAAP, operating segments are based on the internal information that management uses for allocating resources and assessing performance of the Company. The Company reports one operating segment, Property and Casualty Reinsurance. The Company also has a corporate function that includes the Company's investment income on capital, certain general and administrative expenses related to its corporate activities, interest expense, foreign exchange gains (losses) and income tax (expense) benefit. Prior to 2016, the Company had another segment, Catastrophe Risk Management, however, 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.

## **Treasury shares**

Common shares repurchased by the Company and not canceled are classified as treasury shares. Treasury shares are recorded at cost, which results in a reduction of shareholders' equity in the consolidated balance sheets. When shares are reissued from treasury, the Company uses the average cost method to determine the cost of the reissued shares. Gains on sales of treasury shares are credited to additional paid-in capital, while losses are charged to additional paid-in capital to the extent that previous net gains from sales of treasury shares are included therein; otherwise, losses are charged to retained earnings.

## **Recent accounting pronouncements**

### ***Adoption of New Accounting Standards***

In March 2016, the FASB issued Accounting Standards Update 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments* (ASU 2016-06). ASU 2016-06 clarifies that determining whether the economic characteristics of a put or call are clearly and closely related to its debt host requires only an assessment of the four-step decision sequence outlined in FASB ASC paragraph 815-15-25-24. Additionally, entities are not required to separately assess whether the contingency itself is clearly and closely related. The ASU is effective for interim and annual periods in fiscal years beginning after December 15, 2016. As a result of the Company's investments being valued at fair value and the Company not holding the type of instruments addressed by the adoption of ASU 2016-06, the adoption of this standard did not have any impact on the Company's 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. None of the Company's investments qualify for the simplification in ASU 2016-07. As a result, the adoption of this standard did not have any impact on the Company's consolidated financial statements.

In March 2016, the Financial Accounting Standards Board ("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

made the election to account for forfeitures when they occur, which resulted in no material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued Accounting Standards Update 2016-17, *Consolidation (Topic 810): Interests held through Related Parties that are under Common Control* (ASU 2016-17). ASU 2016-17 alters how the Company needs to consider indirect interests in a variable interest entity held through an entity under common control. The new guidance amended ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, issued in February 2015. ASU 2016-17 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The adoption of ASU 2016-17 did not have a material impact on the Company's consolidated financial statements.

#### ***Recently Issued Accounting Standards Not Yet Adopted***

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 provides a framework, through a five-step process, for recognizing revenue from customers, improves comparability and consistency of recognizing revenue across entities, industries, jurisdictions and capital markets, and requires enhanced disclosures. Certain contracts with customers are specifically excluded from the scope of ASU 2014-09, including amongst others, insurance contracts accounted for under Accounting Standard Codification 944, *Financial Services - Insurance*. ASU 2014-09 is effective on January 1, 2017 with retrospective adoption required for the comparative periods. Insurance contracts are specifically excluded from ASU 2014-09 and we do not currently have any other revenue generating activities for which this standard would be applicable. As a result, this new pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued Accounting Standards Update 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 intends to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. The new standard affects all entities that hold financial assets or owe financial liabilities. ASU 2016-01 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. This new pronouncement is not expected to have a material impact on the Company's consolidated financial statements since all of the Company's investments are valued at fair market value.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842): Section A - Leases, Section B - Conforming Amendments Related to Leases and Section C - Background Information and Basis for Conclusions* (ASU 2016-02). ASU 2016-02 intends to improve financial reporting related to leasing transactions. The new standard affects all entities that lease assets such as real estate, airplanes and manufacturing equipment. ASU 2016-02 will require entities that lease assets, referred to as "lessees", to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. ASU 2016-02 is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's consolidated financial statements as a result of the limited number of leases the Company currently has in place.

In June 2016, the FASB issued Accounting Standards Update 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). ASU 2016-13 amends the guidance on the impairment of financial instruments. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance on the Company's consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15). ASU 2016-15 is intended at reducing diversity in practice and addresses eight specific issues in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. To date, the Company has not entered into any of the eight types

of transactions addressed in ASU 2016-15. As a result, this new accounting standard is not expected to have a material impact on the Company's consolidated financial statements when it becomes effective.

In November 2016, the FASB issued Accounting Standards Update 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. ASU 2016-18 clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows, specifically, the Company should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and cash equivalents. An entity with a material balance of amounts generally described as restricted cash and cash equivalents must disclose information about the nature of the restrictions. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods therein. The Company will begin classifying its restricted cash and cash equivalents within the statement of cashflows and will include additional disclosures in accordance with ASU 2016-18 in its consolidated financial statements for the fiscal years beginning after December 31, 2017 and interim periods within those fiscal years.

In March 2017, the FASB issued Accounting Standards Update 2017-08, *Premium Amortization on Purchased Callable Debt Securities* (ASU 2017-08). ASU 2017-08 is intended to enhance the accounting for the amortization of premiums for purchased callable debt securities. The amendments are effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance on the Company's consolidated financial statements.

In May 2017, the FASB issued Accounting Standards Update 2017-09, *Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting* (ASU 2017-09). ASU 2017-09 is intended to reduce diversity in practice and subsequent to its adoption, an entity will not apply modification accounting as a result of changes to terms and conditions of a share-based payment award if certain conditions are met. The amendments in ASU 2017-09 are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. This new accounting standard is not expected to have a material impact on the Company's consolidated financial statements when it becomes effective.

In July 2017, the FASB issued Accounting Standards Update 2017-11, (Part I) Accounting for Certain Financial Instruments With Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests With a Scope Exception (ASU 2017-11). ASU 2017-11 is intended to reduce the complexity associated with accounting for certain financial instruments with characteristics of liabilities and equity. Specifically, a down round feature would no longer cause a freestanding equity-linked financial instrument (or an embedded conversion option) to be accounted for as a derivative liability at fair value with changes in fair value recognized in current earnings. In addition, ASU 2017-11 re-characterizes the indefinite deferral of certain provisions of Topic 480 to a scope exception. The recharacterization has no accounting effect. The amendments are effective for interim and annual periods beginning after December 15, 2018. The Company does not currently have financial instruments with down round features, therefore, the Company does not expect any impact to the Company's consolidated financial statements.

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

Restricted cash and cash equivalents and restricted investments as of December 31, 2017 and 2016 consisted of the following:

|                                                                            | 2017              | 2016       |
|----------------------------------------------------------------------------|-------------------|------------|
|                                                                            | (\$ in thousands) |            |
| Restricted cash securing letter of credit facilities <sup>(1)</sup>        | \$ 250,487        | \$ 231,822 |
| Restricted cash securing other reinsurance contracts <sup>(2)</sup>        | 290,649           | 67,118     |
| Total restricted cash and cash equivalents                                 | 541,136           | 298,940    |
| Restricted investments securing other reinsurance contracts <sup>(2)</sup> | 326,429           | 427,308    |
| Total restricted cash and cash equivalents and restricted investments      | \$ 867,565        | \$ 726,248 |

- (1) Restricted cash securing letter of credit facilities primarily pertains to letters of credit issued to clients and cash securing these obligations that the Company will not be released 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 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 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 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:

|                                                                        | 2017                | 2016                |
|------------------------------------------------------------------------|---------------------|---------------------|
|                                                                        | (\$ in thousands)   |                     |
| <b>Assets</b>                                                          |                     |                     |
| Total investments in securities                                        | \$ 2,995,097        | \$ 2,619,839        |
| Cash and cash equivalents                                              | 8                   | 5                   |
| Restricted cash and cash equivalents                                   | 541,136             | 298,940             |
| Due from brokers                                                       | 305,093             | 284,591             |
| Derivative assets, at fair value                                       | 73,372              | 27,432              |
| Interest and dividends receivable                                      | 3,774               | 6,505               |
| <b>Total assets</b>                                                    | <b>3,918,480</b>    | <b>3,237,312</b>    |
| <b>Liabilities and noncontrolling interests in related party</b>       |                     |                     |
| Accounts payable and accrued expenses                                  | 5,137               | 1,374               |
| Securities sold, not yet purchased                                     | 394,278             | 92,668              |
| Securities sold under an agreement to repurchase                       | 29,618              | —                   |
| Due to brokers                                                         | 770,205             | 899,601             |
| Derivative liabilities, at fair value                                  | 14,503              | 16,050              |
| Interest and dividends payable                                         | 1,218               | 386                 |
| Total noncontrolling interests in related party <sup>(1)</sup>         | 113,626             | 35,674              |
| <b>Total liabilities and noncontrolling interests in related party</b> | <b>1,328,585</b>    | <b>1,045,753</b>    |
| <b>Total net investments managed by Third Point LLC</b>                | <b>\$ 2,589,895</b> | <b>\$ 2,191,559</b> |

(1) See Note 17 for additional information.

#### *Fair Value Measurements*

The Company's Investment Manager has a formal valuation policy that sets forth the pricing methodology for investments to be used in determining the fair value of each security in the Company's portfolio. The valuation policy is updated and approved at least on an annual basis by Third Point LLC's valuation committee (the "Committee"). The Committee is comprised of officers and employees who are senior business management personnel of Third Point LLC and meets monthly. The Committee's role is to review and verify the propriety and consistency of the valuation methodology to determine the fair value of investments. The Committee also reviews any due diligence performed and approves any changes to current or potential external pricing vendors.

Investments are carried at fair value. The fair values of investments are estimated using prices obtained from third-party pricing services, when available. However, situations may arise where the Company believes that the fair value provided by the third-party pricing service does not represent current market conditions. In those situations, Third Point LLC may use dealer quotes to value the investments. 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.

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.

Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value including such a pricing model and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable.

Situations may arise when market quotations or valuations provided by external pricing vendors are available but the fair value may not represent current market conditions. In those cases, Third Point LLC may substitute valuations provided by external pricing vendors with multiple broker-dealer quotations.

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.

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 December 31, 2017, securities valued at \$234.4 million (December 31, 2016 - \$315.3 million), representing 7.6% (December 31, 2016 - 11.9%) of investments in securities and derivative assets, and \$2.1 million (December 31, 2016 - \$2.0 million), representing 0.5% (December 31, 2016 - 1.8%) of securities sold, not yet purchased and derivative liabilities, are valued based on broker quotes.

Private securities, real estate and related debt investments are those not registered for public sale and are carried at an estimated fair value at the end of the period, as determined by Third Point LLC. Valuation techniques used by Third Point LLC may include market approach, last transaction analysis, liquidation analysis and/or using 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 December 31, 2017, the Company had \$83.4 million (December 31, 2016 - \$63.2 million) of investments fair valued by the Company's Investment Manager representing approximately 2.7% (December 31, 2016 - 2.4%) of total investments in securities and derivative assets of which 96.0% were also separately valued by third party valuation firms using information obtained from the Company's Investment Manager. As a result of the inherent uncertainty of valuation for private securities, the estimated fair value may differ materially from the value that would have been used had a ready market existed for these investments. 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 consolidated balance sheets in derivative assets and derivative liabilities. Third Point LLC 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 an industry recognized third party valuation vendor 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. See discussion of accounting policy for embedded derivatives in Note 2 for additional information.

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 consolidated statements of income (loss). These investments are included in investment in funds valued at NAV and excluded from the presentation of investments categorized by the level of the fair value hierarchy. These investments are non-redeemable and distributions are made by the investment funds as underlying investments are monetized.

As of December 31, 2017 and 2016, the Company's asset-backed securities ("ABS") holdings were as follows:

|                      | 2017              |         | 2016   |            |        |
|----------------------|-------------------|---------|--------|------------|--------|
|                      | (\$ in thousands) |         |        |            |        |
| Reperforming loans   | \$                | 160,354 | 71.1%  | \$ 44,359  | 17.4%  |
| Subprime RMBS        |                   | —       | —%     | 117,152    | 46.0%  |
| Market place loans   |                   | 52,584  | 23.3%  | 44,143     | 17.3%  |
| Other <sup>(1)</sup> |                   | 12,561  | 5.6%   | 49,198     | 19.3%  |
|                      | \$                | 225,499 | 100.0% | \$ 254,852 | 100.0% |

(1) Other includes: U.S. Alt-A positions, collateralized debt obligations, commercial mortgage-backed securities, non-U.S. RMBS and student loans ABS.

As of December 31, 2017, 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.

In 2015, the Company made a \$25.0 million investment in the Kiskadee Diversified Fund Ltd. (the "Kiskadee Fund"), a fund vehicle managed by Hiscox Insurance Company (Bermuda) Limited. The Kiskadee Fund invests in property catastrophe exposures through collateralized reinsurance transactions and other insurance-linked investments. During the year ended December 31, 2017, the Company redeemed \$26.7 million (2016 - \$0.3 million). 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 NAV in the Kiskadee Fund, as provided by the investment manager,

and was \$0.8 million as of December 31, 2017 (December 31, 2016 - \$27.7 million). The resulting net gains or losses are reflected in the consolidated statements of income (loss).

As of December 31, 2017, the Company's investments in Baxter International Inc. and Nestle SA were the only investments in excess of 10% of the Company's total shareholders' equity, with fair values of \$311.3 million, or 18.7%, and \$322.1 million, or 19.4%, respectively.

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 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 December 31, 2017 and 2016:

|                                          | December 31, 2017                  |                                           |                                       |                     |
|------------------------------------------|------------------------------------|-------------------------------------------|---------------------------------------|---------------------|
|                                          | Quoted prices in<br>active markets | Significant other<br>observable<br>inputs | Significant<br>unobservable<br>inputs |                     |
|                                          | (Level 1)                          | (Level 2)                                 | (Level 3)                             | Total               |
| Assets                                   | (\$ in thousands)                  |                                           |                                       |                     |
| Equity securities                        | \$ 2,200,379                       | \$ 20,751                                 | \$ —                                  | \$ 2,221,130        |
| Private common equity securities         | —                                  | —                                         | 4,794                                 | 4,794               |
| Private preferred equity securities      | —                                  | —                                         | 57,126                                | 57,126              |
| Total equities                           | 2,200,379                          | 20,751                                    | 61,920                                | 2,283,050           |
| Asset-backed securities                  | —                                  | 198,191                                   | 27,308                                | 225,499             |
| Bank debt                                | —                                  | 14,550                                    | —                                     | 14,550              |
| Corporate bonds                          | —                                  | 67,218                                    | 9,868                                 | 77,086              |
| U.S. Treasury securities                 | —                                  | 249,994                                   | —                                     | 249,994             |
| Sovereign debt                           | —                                  | 102,569                                   | —                                     | 102,569             |
| Other debt securities                    | —                                  | 4,747                                     | 713                                   | 5,460               |
| Total debt securities                    | —                                  | 637,269                                   | 37,889                                | 675,158             |
| Options                                  | 1,973                              | 2,978                                     | —                                     | 4,951               |
| Rights and warrants                      | —                                  | 168                                       | 435                                   | 603                 |
| Real estate                              | —                                  | —                                         | 6,831                                 | 6,831               |
| Trade claims                             | —                                  | 7,496                                     | —                                     | 7,496               |
| Total other investments                  | 1,973                              | 10,642                                    | 7,266                                 | 19,881              |
| Derivative assets (free standing)        | —                                  | 73,372                                    | —                                     | 73,372              |
|                                          | \$ 2,202,352                       | \$ 742,034                                | \$ 107,075                            | 3,051,461           |
| Investments in funds valued at NAV       |                                    |                                           |                                       | 17,850              |
| <b>Total assets</b>                      |                                    |                                           |                                       | <b>\$ 3,069,311</b> |
| <b>Liabilities</b>                       |                                    |                                           |                                       |                     |
| Equity securities                        | \$ 364,215                         | \$ —                                      | \$ —                                  | 364,215             |
| Corporate bonds                          | —                                  | 21,699                                    | —                                     | 21,699              |
| Options                                  | 2,668                              | 5,696                                     | —                                     | 8,364               |
| Total securities sold, not yet purchased | 366,883                            | 27,395                                    | —                                     | 394,278             |
| Derivative liabilities (free standing)   | —                                  | 12,418                                    | 2,085                                 | 14,503              |
| Derivative liabilities (embedded)        | —                                  | —                                         | 171                                   | 171                 |
| <b>Total liabilities</b>                 | <b>\$ 366,883</b>                  | <b>\$ 39,813</b>                          | <b>\$ 2,256</b>                       | <b>\$ 408,952</b>   |

| December 31, 2016                        |                                                 |                                                        |                                                    |                     |
|------------------------------------------|-------------------------------------------------|--------------------------------------------------------|----------------------------------------------------|---------------------|
|                                          | 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                        | \$ 1,450,966                                    | \$ 2,255                                               | \$ —                                               | \$ 1,453,221        |
| Private common equity securities         | —                                               | —                                                      | 4,799                                              | 4,799               |
| Private preferred equity securities      | —                                               | —                                                      | 48,834                                             | 48,834              |
| Total equities                           | 1,450,966                                       | 2,255                                                  | 53,633                                             | 1,506,854           |
| Asset-backed securities                  | —                                               | 237,224                                                | 17,628                                             | 254,852             |
| Bank debt                                | —                                               | 48,546                                                 | 8,350                                              | 56,896              |
| Corporate bonds                          | —                                               | 209,025                                                | 9,255                                              | 218,280             |
| U.S. Treasury securities                 | —                                               | 327,016                                                | —                                                  | 327,016             |
| Sovereign debt                           | —                                               | 200,913                                                | —                                                  | 200,913             |
| Total debt securities                    | —                                               | 1,022,724                                              | 35,233                                             | 1,057,957           |
| Options                                  | 343                                             | 681                                                    | —                                                  | 1,024               |
| Trade claims                             | —                                               | 9,022                                                  | —                                                  | 9,022               |
| Total other investments                  | 343                                             | 9,703                                                  | —                                                  | 10,046              |
| Derivative assets (free standing)        | 961                                             | 26,471                                                 | —                                                  | 27,432              |
|                                          | <u>\$ 1,452,270</u>                             | <u>\$ 1,061,153</u>                                    | <u>\$ 88,866</u>                                   | <u>2,602,289</u>    |
| Investments in funds valued at NAV       |                                                 |                                                        |                                                    | 72,655              |
| <b>Total assets</b>                      |                                                 |                                                        |                                                    | <u>\$ 2,674,944</u> |
| <b>Liabilities</b>                       |                                                 |                                                        |                                                    |                     |
| Equity securities                        | \$ 71,457                                       | \$ —                                                   | \$ —                                               | \$ 71,457           |
| Corporate bonds                          | —                                               | 17,683                                                 | —                                                  | 17,683              |
| Options                                  | —                                               | 3,528                                                  | —                                                  | 3,528               |
| Total securities sold, not yet purchased | 71,457                                          | 21,211                                                 | —                                                  | 92,668              |
| Derivative liabilities (free standing)   | 1,608                                           | 13,116                                                 | 1,326                                              | 16,050              |
| Derivative liabilities (embedded)        | —                                               | —                                                      | 92                                                 | 92                  |
| <b>Total liabilities</b>                 | <u>\$ 73,065</u>                                | <u>\$ 34,327</u>                                       | <u>\$ 1,418</u>                                    | <u>\$ 108,810</u>   |

During the years ended December 31, 2017 and 2016, the Company made no significant reclassifications of assets or liabilities between Levels 1 and 2.

The following table presents the reconciliation of all investments measured at fair value using Level 3 inputs for the years ended December 31, 2017 and 2016:

|                                        | January 1,<br>2017 | Transfers in<br>to (out of)<br>Level 3 | Purchases | Sales       | Realized and<br>Unrealized<br>Gains(Losses) <sup>(1)</sup> | December 31,<br>2017 |
|----------------------------------------|--------------------|----------------------------------------|-----------|-------------|------------------------------------------------------------|----------------------|
|                                        | (\$ in thousands)  |                                        |           |             |                                                            |                      |
| Assets                                 |                    |                                        |           |             |                                                            |                      |
| Private common equity securities       | \$ 4,799           | \$ —                                   | \$ —      | \$ —        | \$ (5)                                                     | \$ 4,794             |
| Private preferred equity securities    | 48,834             | —                                      | 4,777     | (2,102)     | 5,617                                                      | 57,126               |
| Asset-backed securities                | 17,628             | 25,836                                 | 72,758    | (75,666)    | (13,248)                                                   | 27,308               |
| Bank debt                              | 8,350              | —                                      | 4         | (12,009)    | 3,655                                                      | —                    |
| Corporate bonds                        | 9,255              | —                                      | 1,577     | (1,001)     | 37                                                         | 9,868                |
| Other debt securities                  | —                  | —                                      | 637       | —           | 76                                                         | 713                  |
| Rights and warrants                    | —                  | —                                      | —         | —           | 435                                                        | 435                  |
| Real estate                            | —                  | —                                      | 6,770     | —           | 61                                                         | 6,831                |
| Total assets                           | \$ 88,866          | \$ 25,836                              | \$ 86,523 | \$ (90,778) | \$ (3,372)                                                 | \$ 107,075           |
| Liabilities                            |                    |                                        |           |             |                                                            |                      |
| Derivative liabilities (free standing) | \$ (1,326)         | \$ —                                   | \$ —      | \$ (44)     | \$ (715)                                                   | \$ (2,085)           |
| Derivative liabilities (embedded)      | (92)               | —                                      | —         | —           | (79)                                                       | (171)                |
| Total liabilities                      | \$ (1,418)         | \$ —                                   | \$ —      | \$ (44)     | \$ (794)                                                   | \$ (2,256)           |

|                                        | January 1,<br>2016 | Transfers in<br>to (out of)<br>Level 3 | Purchases | Sales       | Realized and<br>Unrealized<br>Gains(Losses) <sup>(1)</sup> | December 31,<br>2016 |
|----------------------------------------|--------------------|----------------------------------------|-----------|-------------|------------------------------------------------------------|----------------------|
|                                        | (\$ in thousands)  |                                        |           |             |                                                            |                      |
| Assets                                 |                    |                                        |           |             |                                                            |                      |
| Private common equity securities       | \$ 4,357           | \$ —                                   | \$ 60     | \$ —        | \$ 382                                                     | \$ 4,799             |
| Private preferred equity securities    | 24,178             | —                                      | 20,574    | (60)        | 4,142                                                      | 48,834               |
| Asset-backed securities                | 2,617              | 17,390                                 | 5,433     | (3,527)     | (4,285)                                                    | 17,628               |
| Bank debt                              | 7,660              | —                                      | 3,248     | (928)       | (1,630)                                                    | 8,350                |
| Corporate bonds                        | 3,252              | —                                      | 12,651    | (7,288)     | 640                                                        | 9,255                |
| Sovereign debt                         | 21                 | —                                      | —         | (20)        | (1)                                                        | —                    |
| Total assets                           | \$ 42,085          | \$ 17,390                              | \$ 41,966 | \$ (11,823) | \$ (752)                                                   | \$ 88,866            |
| Liabilities                            |                    |                                        |           |             |                                                            |                      |
| Derivative liabilities (free standing) | \$ (1,020)         | \$ —                                   | \$ —      | \$ (306)    | \$ —                                                       | \$ (1,326)           |
| Derivative liabilities (embedded)      | (5,563)            | —                                      | 6,072     | (861)       | 260                                                        | (92)                 |
| Total liabilities                      | \$ (6,583)         | \$ —                                   | \$ 6,072  | \$ (1,167)  | \$ 260                                                     | \$ (1,418)           |

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

Total change in unrealized gains (losses) on fair value of assets using significant unobservable inputs (Level 3) held at the year ended December 31, 2017 was \$(9.5) million (2016 - \$1.0 million and 2015 - \$(0.2) 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 year, gains (losses) are presented as if the assets or liabilities had been transferred out of Level 3 at the beginning of the year.

The following table summarizes 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 are insignificant or do not have any unobservable inputs to disclose, as they are valued primarily using dealer quotes, or at cost.

| December 31, 2017          |                                 |                      |                     |                 |
|----------------------------|---------------------------------|----------------------|---------------------|-----------------|
| Assets                     | Fair value<br>(\$ in thousands) | Valuation technique  | Unobservable input  | Range           |
| Private equity investments | \$ 37,507                       | Market approach      | Volatility          | 35.0% - 65.0%   |
|                            |                                 |                      | Time to exit        | 0.5 - 1.8 years |
|                            |                                 |                      | Multiple            | 7.8 - 24.4x     |
| Real estate                | 6,831                           | Discounted cash flow | Discount rate       | 9.5%            |
|                            |                                 |                      | Capitalization rate | 6.5% - 10.0%    |
| Other debt securities      | 713                             | Discounted cash flow | Capitalization rate | 10.0%           |
| Rights and warrants        | 433                             | Discounted cash flow | Discount rate       | 13.5%           |
|                            |                                 |                      | Time to exit        | 5.0 years       |
|                            |                                 | Market approach      | Multiple            | 3.8 - 4.6x      |
| December 31, 2016          |                                 |                      |                     |                 |
| Assets                     | Fair value<br>(\$ in thousands) | Valuation technique  | Unobservable input  | Range           |
| Private equity investments | \$ 47,608                       | Market approach      | Discount            | 5.0% - 25.0%    |
|                            |                                 |                      | Volatility          | 40.0% - 60.0%   |
|                            |                                 |                      | Time to exit        | 0.4 - 2.8 years |
|                            |                                 |                      | Multiple            | 2.0 - 3.8x      |

### Private equity investments

The Company measures the fair value of these investments using a market approach which typically utilizes guideline comparable company trading multiples and/or a discounted cash flow analysis. Under the guideline comparable company multiples approach, the Company determines comparable public companies based on industry, size, developmental stage, strategy, etc., and then calculates a trading multiple for each comparable company. The trading multiple may then be discounted for various considerations as appropriate. The concluded multiple is then applied to the subject company to calculate the value of the subject company. The discounted cash flow model involves using the financial information of the portfolio companies to develop revenue and income projections for the subject company for future years based on information on growth rates relative to the company's development stage. The enterprise value of the subject company is calculated by discounting the projected cash flows and the terminal value to net present value. The fair value of the company's debt is reduced from the enterprise value to determine the equity value.

### Real estate and other debt securities

The values of the investments are based upon available information concerning the market for real estate property investments and the underlying assets of the other debt investments. The valuation methods include, but are not limited to the following: (1) forecasts of future net cash flows based on the Investment Manager's analysis of future earnings from the investment plus anticipated net proceeds from the sale, disposition or resolution of the investment; (2) discounted earnings multiples applied to stabilized income or adjusted earnings from the investment; (3) recent sales of comparable investments.

### Rights and warrants

The values of the investments are based on the valuation techniques discussed in private equity investments above as they relate to the same underlying securities.

For the years ended December 31, 2017 and 2016, 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 December 31, 2017, these positions are not impacted by counterparty netting agreements. Interest payable and receivable related to these transactions are included in interest payable and receivable in the consolidated balance sheets. 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 December 31, 2017 and 2016:

| <b>December 31, 2017</b>               | <b>Overnights and continuous</b> | <b>Up to 30 days</b> | <b>30 - 90 days</b> | <b>Greater than 90 days</b> | <b>Total</b> |
|----------------------------------------|----------------------------------|----------------------|---------------------|-----------------------------|--------------|
|                                        |                                  |                      | (\$ in thousands)   |                             |              |
| <b>Repurchase agreements</b>           |                                  |                      |                     |                             |              |
| Asset-backed securities                | \$ —                             | \$ 10,774            | \$ 18,844           | \$ —                        | \$ 29,618    |
|                                        |                                  |                      | (\$ in thousands)   |                             |              |
| <b>December 31, 2016</b>               | <b>Overnights and continuous</b> | <b>Up to 30 days</b> | <b>30 - 90 days</b> | <b>Greater than 90 days</b> | <b>Total</b> |
|                                        |                                  |                      | (\$ in thousands)   |                             |              |
| <b>Securities lending transactions</b> |                                  |                      |                     |                             |              |
| U.S. Treasury and agency securities    | \$ 310                           | \$ —                 | \$ —                | \$ —                        | \$ 310       |

## 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 are available as collateral against investments in securities sold, not yet purchased and derivative positions, if required.

As of December 31, 2017 and 2016, the Company's due from/to brokers were comprised of the following:

|                                                 | 2017              | 2016              |
|-------------------------------------------------|-------------------|-------------------|
|                                                 | (\$ in thousands) |                   |
| <b>Due from brokers</b>                         |                   |                   |
| Cash held at brokers                            | \$ 295,467        | \$ 240,205        |
| Receivable from unsettled trades <sup>(1)</sup> | 9,626             | 44,386            |
|                                                 | <u>\$ 305,093</u> | <u>\$ 284,591</u> |
| <b>Due to brokers</b>                           |                   |                   |
| Borrowing from prime brokers                    | \$ 759,267        | \$ 855,576        |
| Payable from unsettled trades                   | 10,938            | 44,025            |
|                                                 | <u>\$ 770,205</u> | <u>\$ 899,601</u> |

(1) Receivables relating to securities sold by the Company are recorded as receivable from unsettled trades in due from brokers in the Company's consolidated balance sheets. During the year ended December 31, 2015, the Company's investment manager, Third Point LLC, exercised appraisal rights relating to an underlying investment, which was bought by a private equity firm. As of December 31, 2016, \$37.6 million was included in receivable from unsettled trades in due from brokers while the Company awaited the court decision regarding the sale price. In the second quarter of 2017, the court decision resulted in the Company receiving the total value of \$37.6 million as well as interest of \$5.0 million for the trial period.

Due from/to brokers include cash balances maintained with the Company's prime brokers, receivables and payables from unsettled trades and proceeds from securities sold, not yet purchased. In addition, due from/to brokers includes cash collateral received and posted from OTC and repurchase agreement counterparties. As of December 31, 2017, the Company's borrowing from prime brokers includes a total non-U.S. currency balance of \$70.1 million (December 31, 2016 - \$22.0 million).

The Company uses prime brokerage borrowing arrangements to provide collateral for its letter of credit facilities and to fund trust accounts securing certain reinsurance contracts. As of December 31, 2017, the Company had \$867.6 million (December 31, 2016 - \$726.2 million) of restricted cash and investments securing letter of credit facilities and certain reinsurance contracts. Margin debt balances were collateralized by cash held by the broker and certain of the Company's securities. Margin interest was paid either at the daily broker call rate or based on London Inter-bank Offered Rate. 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 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 consolidated balance sheets, categorized by primary underlying risk. Balances are presented on a gross basis.

| As of December 31, 2017                                                 |                                      |                                 |                                 |
|-------------------------------------------------------------------------|--------------------------------------|---------------------------------|---------------------------------|
|                                                                         | Listing currency <sup>(1)</sup>      | Fair Value<br>(\$ in thousands) | Notional Amounts <sup>(2)</sup> |
| <b>Derivative Assets by Primary Underlying Risk</b>                     |                                      |                                 |                                 |
| <b>Credit</b>                                                           |                                      |                                 |                                 |
| Credit Default Swaps - Protection Purchased                             | USD                                  | \$ 8,205                        | \$ 50,593                       |
| Total Return Swaps - Long Contracts                                     | EGP                                  | 25,245                          | 25,245                          |
| <b>Equity Price</b>                                                     |                                      |                                 |                                 |
| Contracts for Differences - Long Contracts                              | BRL / CHF / EUR / USD                | 17,298                          | 163,868                         |
| Contracts for Differences - Short Contracts                             | DKK / NOK / SEK / USD                | 4,384                           | 31,992                          |
| Total Return Swaps - Long Contracts                                     | BRL / USD                            | 15,936                          | 96,388                          |
| Total Return Swaps - Short Contracts                                    | USD                                  | 1                               | —                               |
| <b>Interest Rates</b>                                                   |                                      |                                 |                                 |
| Interest Rate Swaptions                                                 | JPY                                  | 539                             | 64,950                          |
| <b>Foreign Currency Exchange Rates</b>                                  |                                      |                                 |                                 |
| Foreign Currency Forward Contracts                                      | HKD / JPY                            | 1,764                           | 511,937                         |
| <b>Total Derivative Assets</b>                                          |                                      | <b>\$ 73,372</b>                | <b>\$ 944,973</b>               |
|                                                                         | Listing currency <sup>(1)</sup>      | Fair Value<br>(\$ in thousands) | Notional Amounts <sup>(2)</sup> |
| <b>Derivative Liabilities by Primary Underlying Risk</b>                |                                      |                                 |                                 |
| <b>Credit</b>                                                           |                                      |                                 |                                 |
| Credit Default Swaps - Protection Purchased                             | USD                                  | \$ 1,250                        | \$ 19,418                       |
| Credit Default Swaps - Protection Sold                                  | USD                                  | 2,085                           | 2,351                           |
| <b>Equity Price</b>                                                     |                                      |                                 |                                 |
| Contracts for Differences - Long Contracts                              | BRL / EUR / USD                      | 2,200                           | 93,200                          |
| Contracts for Differences - Short Contracts                             | DKK / EUR / USD                      | 776                             | 8,483                           |
| Total Return Swaps - Long Contracts                                     | BRL / USD                            | 73                              | 50,858                          |
| Total Return Swaps - Short Contracts                                    | USD                                  | 1,885                           | 52,657                          |
| <b>Interest Rates</b>                                                   |                                      |                                 |                                 |
| Interest Rate Swaptions                                                 | JPY                                  | 70                              | 64,482                          |
| <b>Foreign Currency Exchange Rates</b>                                  |                                      |                                 |                                 |
| Foreign Currency Forward Contracts                                      | BRL / CHF / CNH / EUR /<br>HKD / SAR | 6,164                           | 573,498                         |
| <b>Total Derivative Liabilities (free standing)</b>                     |                                      | <b>\$ 14,503</b>                | <b>\$ 864,947</b>               |
| Embedded derivative liabilities in reinsurance contracts <sup>(3)</sup> | USD                                  | \$ 171                          | \$ 20,000                       |
| <b>Total Derivative Liabilities (embedded)</b>                          |                                      | <b>\$ 171</b>                   | <b>\$ 20,000</b>                |

(1) BRL = Brazilian Real, CHF = Swiss Franc, CNH = Chinese Yuan, DKK = Danish Krone, EGP = Egyptian Pound, EUR = Euro, HKD = Hong Kong Dollar, JPY = Japanese Yen, NOK = Norwegian Krone, SAR = Saudi Arabian Riyal, SEK = Swedish Krona, USD = US Dollar.

(2) The absolute notional exposure represents the Company's derivative activity as of December 31, 2017, 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 consolidated balance sheets.

| As of December 31, 2016                                                 |                                 |                   |                                 |
|-------------------------------------------------------------------------|---------------------------------|-------------------|---------------------------------|
| Derivative Assets by Primary Underlying Risk                            | Listing currency <sup>(1)</sup> | Fair Value        | Notional Amounts <sup>(2)</sup> |
|                                                                         |                                 | (\$ in thousands) |                                 |
| <b>Credit</b>                                                           |                                 |                   |                                 |
| Credit Default Swaps - Protection Purchased                             | EUR / USD                       | \$ 10,905         | \$ 84,327                       |
| <b>Equity Price</b>                                                     |                                 |                   |                                 |
| Contracts for Differences - Long Contracts                              | EUR / GBP                       | 1,765             | 36,879                          |
| Total Return Swaps - Long Contracts                                     | BRL / USD                       | 617               | 19,140                          |
| Total Return Swaps - Short Contracts                                    | JPY                             | 183               | 8,696                           |
| <b>Interest Rates</b>                                                   |                                 |                   |                                 |
| Interest Rate Swaps                                                     | GBP / USD                       | 2,462             | 195,571                         |
| Interest Rate Swaptions                                                 | JPY / USD                       | 5,354             | 424,816                         |
| Sovereign Debt Futures - Short Contracts                                | USD                             | 961               | 107,591                         |
| <b>Foreign Currency Exchange Rates</b>                                  |                                 |                   |                                 |
| Foreign Currency Forward Contracts                                      | CAD / CNH / GBP / MXN           | 653               | 47,754                          |
| Foreign Currency Options - Purchased                                    | CNH / EUR / HKD / JPY / SAR     | 4,532             | 501,465                         |
| <b>Total Derivative Assets</b>                                          |                                 | <b>\$ 27,432</b>  | <b>\$ 1,426,239</b>             |
| Derivative Liabilities by Primary Underlying Risk                       | Listing currency <sup>(1)</sup> | Fair Value        | Notional Amounts <sup>(2)</sup> |
|                                                                         |                                 | (\$ in thousands) |                                 |
| <b>Credit</b>                                                           |                                 |                   |                                 |
| Credit Default Swaps - Protection Purchased                             | USD                             | \$ 3,286          | \$ 43,184                       |
| Credit Default Swaps - Protection Sold                                  | USD                             | 1,952             | 3,943                           |
| <b>Equity Price</b>                                                     |                                 |                   |                                 |
| Contracts for Differences - Long Contracts                              | GBP                             | —                 | 67                              |
| Contracts for Differences - Short Contracts                             | EUR / ZAR                       | 1,106             | 11,424                          |
| Total Return Swaps - Long Contracts                                     | USD                             | 1,675             | 26,800                          |
| Total Return Swaps - Short Contracts                                    | JPY / USD                       | 1,302             | 10,095                          |
| <b>Interest Rates</b>                                                   |                                 |                   |                                 |
| Interest Rate Swaps                                                     | GBP                             | 722               | 59,115                          |
| Interest Rate Swaptions                                                 | JPY / USD                       | 1,056             | 417,052                         |
| Sovereign Debt Futures - Short Contracts                                | EUR / GBP                       | 1,608             | 159,923                         |
| <b>Foreign Currency Exchange Rates</b>                                  |                                 |                   |                                 |
| Foreign Currency Forward Contracts                                      | EUR / JPY / SAR                 | 2,009             | 214,854                         |
| Foreign Currency Options - Sold                                         | CNH / JPY                       | 1,334             | 363,840                         |
| <b>Total Derivative Liabilities (free standing)</b>                     |                                 | <b>\$ 16,050</b>  | <b>\$ 1,310,297</b>             |
|                                                                         |                                 |                   |                                 |
| Embedded derivative liabilities in reinsurance contracts <sup>(3)</sup> | USD                             | \$ 92             | \$ 20,000                       |
| <b>Total Derivative Liabilities (embedded)</b>                          |                                 | <b>\$ 92</b>      | <b>\$ 20,000</b>                |

(1) BRL = Brazilian Real, CAD = Canadian Dollar, 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, ZAR = South African Rand.

(2) The absolute notional exposure represents the Company's derivative activity as of December 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 consolidated balance sheets.

The following table sets forth, by major risk type, the Company's realized and unrealized gains (losses) relating to derivatives for the years ended December 31, 2017, 2016 and 2015. Realized and unrealized gains (losses) related to free standing derivatives are included in net investment income (loss) in the consolidated statements of income (loss). Realized and unrealized gains (losses) related to embedded derivatives are included in other expenses in the consolidated statements of income (loss).

| Free standing Derivatives - Primary Underlying Risk | 2017                 |                         | 2016                 |                         | 2015                 |                         |
|-----------------------------------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
|                                                     | Realized Gain (Loss) | Unrealized Gain (Loss)* | Realized Gain (Loss) | Unrealized Gain (Loss)* | Realized Gain (Loss) | Unrealized Gain (Loss)* |
| <b>Commodity Price</b>                              |                      |                         |                      |                         |                      |                         |
|                                                     | (\$ in thousands)    |                         |                      |                         |                      |                         |
| Commodities Futures - Long Contracts                | \$ —                 | \$ —                    | \$ —                 | \$ —                    | \$ (1,515)           | \$ —                    |
| Commodity Future Options - Purchased                | —                    | —                       | 651                  | —                       | (286)                | 285                     |
| Commodity Future Options - Sold                     | —                    | —                       | —                    | —                       | 272                  | (269)                   |
| <b>Credit</b>                                       |                      |                         |                      |                         |                      |                         |
| Credit Default Swaps - Protection Purchased         | (3,462)              | (978)                   | 4,311                | (6,841)                 | 1,282                | 4,839                   |
| Credit Default Swaps - Protection Sold              | 605                  | (720)                   | (4,009)              | 4,149                   | 2,071                | (2,098)                 |
| Total Return Swaps - Long Contracts                 | 72                   | 2,000                   | —                    | —                       | —                    | —                       |
| <b>Equity Price</b>                                 |                      |                         |                      |                         |                      |                         |
| Contracts for Differences - Long Contracts          | 58,047               | 13,334                  | (4,123)              | 2,245                   | (6,101)              | 660                     |
| Contracts for Differences - Short Contracts         | 2,608                | 4,715                   | (253)                | (3,579)                 | 8,459                | 2,418                   |
| Total Return Swaps - Long Contracts                 | 16,863               | 16,923                  | (6,835)              | 1,957                   | 1,410                | (2,469)                 |
| Total Return Swaps - Short Contracts                | (15,892)             | (765)                   | (4,812)              | (1,198)                 | (1,395)              | 45                      |
| <b>Index</b>                                        |                      |                         |                      |                         |                      |                         |
| Index Futures - Long Contracts                      | —                    | —                       | —                    | —                       | 1,144                | —                       |
| <b>Interest Rates</b>                               |                      |                         |                      |                         |                      |                         |
| Bond Futures - Short Contracts                      | —                    | —                       | —                    | —                       | (2,584)              | —                       |
| Commodity Futures - Short Contracts                 | —                    | —                       | (281)                | (52)                    | (580)                | 194                     |
| Fixed Income Swap - Short Contracts                 | —                    | —                       | (94)                 | —                       | —                    | —                       |
| Interest Rate Swaps                                 | (3,104)              | (1,740)                 | 205                  | 1,740                   | 119                  | —                       |
| Interest Rate Swaptions                             | (354)                | (2,056)                 | (340)                | 869                     | (771)                | (39)                    |
| Sovereign Debt Futures - Short Contracts            | (7,798)              | 647                     | 10,519               | (647)                   | —                    | —                       |
| Treasury Futures - Short Contracts                  | —                    | —                       | —                    | —                       | (2,734)              | 280                     |
| <b>Foreign Currency Exchange Rates</b>              |                      |                         |                      |                         |                      |                         |
| Foreign Currency Forward Contracts                  | (10,470)             | (3,048)                 | (2,747)              | (2,261)                 | 21,429               | (3,334)                 |
| Foreign Currency Options - Purchased                | (6,716)              | 1,164                   | (2,338)              | (2,229)                 | 318                  | (1,144)                 |
| Foreign Currency Options - Sold                     | 2,183                | (80)                    | 617                  | (103)                   | 1,214                | 316                     |
| <b>Reinsurance contract derivatives</b>             | —                    | —                       | —                    | —                       | 30                   | —                       |
|                                                     | <u>\$ 32,582</u>     | <u>\$ 29,396</u>        | <u>\$ (9,529)</u>    | <u>\$ (5,950)</u>       | <u>\$ 21,782</u>     | <u>\$ (316)</u>         |
| <b>Embedded Derivatives</b>                         |                      |                         |                      |                         |                      |                         |
| Embedded derivatives in reinsurance contracts       | \$ —                 | \$ (79)                 | \$ —                 | \$ 260                  | \$ (5)               | \$ 362                  |
| Embedded derivatives in deposit contracts           | —                    | —                       | —                    | —                       | 2,104                | —                       |
| <b>Total Derivative Liabilities (embedded)</b>      | <u>\$ —</u>          | <u>\$ (79)</u>          | <u>\$ —</u>          | <u>\$ 260</u>           | <u>\$ 2,099</u>      | <u>\$ 362</u>           |

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

The Company's derivative contracts are generally subject to 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 and futures contracts in accordance with bilateral collateral agreements. During the year ended December 31, 2017, no termination events were triggered under the ISDA Master Agreements. As of December 31, 2017, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position was \$3.6 million (December 31, 2016 - \$6.1 million) for which the Company posted collateral in the form of cash of \$103.0 million (December 31, 2016 - \$48.8 million) in the normal course of business. Similarly, the Company held collateral (approximately \$3.2 million) in cash from certain counterparties as of December 31, 2017. If the credit-risk-related contingent features underlying these instruments had been triggered as of December 31, 2017 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 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 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 December 31, 2017 and 2016, 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:

| December 31, 2017<br>Derivative Contracts                          | Gross Amounts not Offset in the Consolidated Balance Sheet |                          |                             |                  |
|--------------------------------------------------------------------|------------------------------------------------------------|--------------------------|-----------------------------|------------------|
|                                                                    | Gross Amount <sup>(1)</sup>                                | Financial<br>Instruments | Cash Collateral<br>Received | Net Amount       |
| <b>Financial assets, derivative assets and collateral received</b> | (\$ in thousands)                                          |                          |                             |                  |
| Counterparty 1                                                     | \$ 167                                                     | \$ 167                   | \$ —                        | \$ —             |
| Counterparty 2                                                     | 1,343                                                      | 706                      | —                           | 637              |
| Counterparty 3                                                     | 37,313                                                     | 2,705                    | —                           | 34,608           |
| Counterparty 4                                                     | 2,683                                                      | 2,683                    | —                           | —                |
| Counterparty 5                                                     | 14,798                                                     | 6,647                    | —                           | 8,151            |
| Counterparty 6                                                     | 5,338                                                      | 9                        | 2,122                       | 3,207            |
| Counterparty 7                                                     | 1,377                                                      | —                        | 1,100                       | 277              |
| Counterparty 8                                                     | 12,628                                                     | 2,963                    | —                           | 9,665            |
| Counterparty 9                                                     | 703                                                        | 703                      | —                           | —                |
|                                                                    | <u>\$ 76,350</u>                                           | <u>\$ 16,583</u>         | <u>\$ 3,222</u>             | <u>\$ 56,545</u> |

| December 31, 2017<br>Derivative Contracts                                   | Gross Amounts not Offset in the Consolidated Balance Sheet |                       |                         |               |
|-----------------------------------------------------------------------------|------------------------------------------------------------|-----------------------|-------------------------|---------------|
|                                                                             | Gross Amount <sup>(2)</sup>                                | Financial Instruments | Cash Collateral Pledged | Net Amount    |
| <b>Financial liabilities, derivative liabilities and collateral pledged</b> | (\$ in thousands)                                          |                       |                         |               |
| Counterparty 1                                                              | \$ 1,340                                                   | \$ 167                | \$ 1,173                | \$ —          |
| Counterparty 2                                                              | 706                                                        | 706                   | —                       | —             |
| Counterparty 3                                                              | 2,705                                                      | 2,705                 | —                       | —             |
| Counterparty 4                                                              | 3,812                                                      | 2,683                 | 1,129                   | —             |
| Counterparty 5                                                              | 6,647                                                      | 6,647                 | —                       | —             |
| Counterparty 6                                                              | 9                                                          | 9                     | —                       | —             |
| Counterparty 8                                                              | 2,963                                                      | 2,963                 | —                       | —             |
| Counterparty 9                                                              | 1,181                                                      | 703                   | 478                     | —             |
| Counterparty 15                                                             | 836                                                        | —                     | 732                     | 104           |
|                                                                             | <u>\$ 20,199</u>                                           | <u>\$ 16,583</u>      | <u>\$ 3,512</u>         | <u>\$ 104</u> |
| <b>Securities sold under an agreement to repurchase</b>                     |                                                            |                       |                         |               |
| Counterparty 4                                                              | \$ 29,618                                                  | \$ 29,618             | \$ —                    | \$ —          |
|                                                                             | <u>\$ 29,618</u>                                           | <u>\$ 29,618</u>      | <u>\$ —</u>             | <u>\$ —</u>   |

- (1) The gross amounts of assets presented in the consolidated balance sheets presented above includes the fair value of derivative contract assets as well as gross OTC option contract assets of \$3.0 million included in other investments in the consolidated balance sheets.
- (2) The gross amounts of liabilities presented in the consolidated balance sheets presented above includes the fair value of derivative contract liabilities as well as gross OTC option contract liabilities of \$5.7 million included in securities sold, not yet purchased in the consolidated balance sheets.

| December 31, 2016<br>Derivative Contracts                          | Gross Amounts not Offset in the Consolidated Balance Sheet |                       |                          |                  |
|--------------------------------------------------------------------|------------------------------------------------------------|-----------------------|--------------------------|------------------|
|                                                                    | Gross Amount <sup>(1)</sup>                                | Financial Instruments | Cash Collateral Received | Net Amount       |
| <b>Financial assets, derivative assets and collateral received</b> | (\$ in thousands)                                          |                       |                          |                  |
| Counterparty 1                                                     | \$ 535                                                     | \$ 535                | \$ —                     | \$ —             |
| Counterparty 2                                                     | 3,147                                                      | 607                   | —                        | 2,540            |
| Counterparty 3                                                     | 8,652                                                      | 4,760                 | —                        | 3,892            |
| Counterparty 4                                                     | 1,639                                                      | 1,639                 | —                        | —                |
| Counterparty 5                                                     | 7,336                                                      | 3,027                 | —                        | 4,309            |
| Counterparty 6                                                     | 6,262                                                      | 2,599                 | 3,383                    | 280              |
| Counterparty 7                                                     | 227                                                        | —                     | 197                      | 30               |
| Counterparty 8                                                     | 277                                                        | 277                   | —                        | —                |
| Counterparty 9                                                     | 37                                                         | 37                    | —                        | —                |
|                                                                    | <u>\$ 28,112</u>                                           | <u>\$ 13,481</u>      | <u>\$ 3,580</u>          | <u>\$ 11,051</u> |

| December 31, 2016<br>Derivative Contracts                                   | Gross Amounts not Offset in the Consolidated Balance Sheet |                       |                         |               |
|-----------------------------------------------------------------------------|------------------------------------------------------------|-----------------------|-------------------------|---------------|
|                                                                             | Gross Amount <sup>(2)</sup>                                | Financial Instruments | Cash Collateral Pledged | Net Amount    |
| <b>Financial liabilities, derivative liabilities and collateral pledged</b> |                                                            |                       |                         |               |
|                                                                             | (\$ in thousands)                                          |                       |                         |               |
| Counterparty 1                                                              | \$ 2,959                                                   | \$ 535                | \$ 2,424                | \$ —          |
| Counterparty 2                                                              | 607                                                        | 607                   | —                       | —             |
| Counterparty 3                                                              | 4,760                                                      | 4,760                 | —                       | —             |
| Counterparty 4                                                              | 3,827                                                      | 1,639                 | 2,188                   | —             |
| Counterparty 5                                                              | 3,027                                                      | 3,027                 | —                       | —             |
| Counterparty 6                                                              | 2,599                                                      | 2,599                 | —                       | —             |
| Counterparty 8                                                              | 977                                                        | 277                   | —                       | 700           |
| Counterparty 9                                                              | 822                                                        | 37                    | 785                     | —             |
|                                                                             | <u>\$ 19,578</u>                                           | <u>\$ 13,481</u>      | <u>\$ 5,397</u>         | <u>\$ 700</u> |
| <b>Securities lending transactions</b>                                      |                                                            |                       |                         |               |
| Counterparty 3                                                              | \$ 302                                                     | \$ 302                | \$ —                    | \$ —          |
|                                                                             | <u>\$ 302</u>                                              | <u>\$ 302</u>         | <u>\$ —</u>             | <u>\$ —</u>   |

- (1) The gross amounts of assets presented in the consolidated balance sheets presented above includes the fair value of derivative contract assets as well as gross OTC option contract assets of \$0.7 million included in other investments in the consolidated balance sheets.
- (2) The gross amounts of liabilities presented in the consolidated balance sheets presented above includes the fair value of derivative contract liabilities as well as gross OTC option contract liabilities of \$3.5 million included in securities sold, not yet purchased in the consolidated balance sheets.

## 8. Loss and loss adjustment expense reserves

As of December 31, 2017 and 2016, loss and loss adjustment expense reserves in the consolidated balance sheets was comprised of the following:

|                                                                     | 2017              | 2016              |
|---------------------------------------------------------------------|-------------------|-------------------|
|                                                                     | (\$ in thousands) |                   |
| Case loss and loss adjustment expense reserves                      | \$ 115,622        | \$ 80,370         |
| Incurred but not reported loss and loss adjustment expense reserves | 604,260           | 522,818           |
| Deferred gains on retroactive reinsurance contracts                 | 688               | 1,941             |
|                                                                     | <u>\$ 720,570</u> | <u>\$ 605,129</u> |

## Reserving methodologies

The Company's methodology for reserving for its reinsurance contracts and determining its loss and loss adjustment expense reserves, including incurred but not reported reserves, is as follows:

The Company's actuaries perform an actuarial projection of the Company's reserves quarterly and have a third-party actuarial review performed periodically. All reserves are estimated on an individual contract basis; there is no aggregation of contracts for projection of ultimate loss or reserves. The Company typically initially reserves individual contracts to the expected loss and loss expense ratio in its pricing analysis. As loss information is received from cedents, the Company incorporates other actuarial methods into its projection of ultimate losses and, hence, reserves.

In the Company's pricing analysis, there is a significant amount of information unique to the individual client and, when necessary, the analysis is supplemented with industry data. Industry data primarily takes the form of paid and incurred development patterns from statutory financial statements and statistical agencies. For the Company's actuarial reserve projections, the relevant information received from clients includes premium estimates, paid loss and loss adjustment expenses and case reserves. The Company's actuaries review the data for reasonableness and research any

noted anomalies. On each contract, the Company's actuaries compare the expected paid and incurred amounts at each quarter-end with actual amounts reported. The Company's actuaries also compare premiums received with projected premium receipts at each quarter end.

There is a time lag between when a covered loss event occurs and when it is reported to the Company's cedents. There is also a time lag between when clients pay claims, establish case reserves and re-estimate their reserves, and when they notify the Company of the payments and/or new or revised case reserves. This reporting lag is typically 60 to 90 days after the end of a reporting period, but can be longer in some cases. The Company's actuaries use techniques that adjust for this reporting lag. While it would be unusual to have lags that extend beyond 90 days, the Company's actuarial techniques are designed to adjust for such a circumstance.

The principal actuarial methods (and associated key assumptions) used to perform the Company's quarterly loss reserve analysis may include one or more of the following methods:

***A priori loss ratio method***

To estimate ultimate losses using the a priori loss ratio method, the Company multiplies earned premiums by an expected loss ratio. The expected loss ratio is selected as part of the pricing and utilizes individual client data, supplemented by industry data where necessary. This method is often useful when there is limited historical data due to few losses being incurred.

***Paid loss development method***

This method estimates ultimate losses by calculating past paid loss development factors and applying them to exposure periods with further expected paid loss development. The paid loss development method assumes that losses are paid at a rate consistent with the historical rate of payment. It provides an objective test of reported loss projections because paid losses contain no case reserve estimates. For some lines of business, claim payments are made slowly and it may take many years for claims to be fully reported and settled.

***Incurred loss development method***

This method estimates ultimate losses by using past incurred loss development factors and applying them to exposure periods with further expected incurred loss development. Since incurred losses include payments and case reserves, changes in both of these amounts are incorporated in this method. This approach provides a larger volume of data to estimate ultimate losses than paid loss methods. Thus, incurred loss patterns may be less varied than paid loss patterns, especially for coverages that have historically been paid out over a long period of time but for which claims are incurred relatively early and case loss reserve estimates are established.

***Bornhuetter-Ferguson paid and incurred loss methods***

These methods are a weighted average of the a priori loss ratio method and the relevant development method. The weighting between the two methods depends on the maturity of the business. This means that for the more recent years a greater weight is placed on the a priori loss ratio method, while for the more mature years a greater weight is placed on the development methods. These methods avoid some of the distortions that could result from a large development factor being applied to a small base of paid or incurred losses to calculate ultimate losses. This method will react slowly if actual paid or incurred loss experience develops differently than historical paid or incurred loss experience because of major changes in rate levels, retentions or deductibles, the forms and conditions of coverage, the types of risks covered or a variety of other factors.

***IBNR to outstanding ratio method***

This method is used in selected cases typically for very mature years that still have open claims. This method assumes that the estimated future loss development is indicated by the current level of case reserves.

Key to the projection of ultimate loss is the amount of credibility or weight assigned to each actuarial method. Each method has advantages and disadvantages, and those can change depending on numerous factors including the reliability of the underlying data. The selection and weighting of the projection methods is a highly subjective process. In order

to achieve a desirable amount of consistency from study to study and between contracts, the Company's actuaries have implemented a weighting scheme that incorporates numerous "rules" for the weighting of actuarial methods. These rules attempt to effectively standardize the process used for selecting weights for the various methods. There are numerous circumstances where the rules would be modified for specific reinsurance contracts; examples would include a large market event or new information on historical years that may cause us to increase our a priori loss ratio.

As part of the Company's quarterly reserving process, loss-sensitive contingent expenses (e.g., profit commissions, sliding-scale ceding commissions, etc.) are calculated on an individual contract basis. These expense calculations are based on the updated ultimate loss estimates derived from the Company's quarterly reserving process.

The Company's reserving methodologies use a loss reserving model that calculates a point estimate for the Company's ultimate losses. Although the Company believes that its assumptions and methodologies are reasonable, the ultimate payments may vary, potentially materially, from the estimates that the Company has made.

There were no significant changes made to the Company's methodology for calculating loss and loss adjustment reserves for the year ended December 31, 2017.

### Roll forward of loss and loss adjustment expense reserves

The following table represents the activity in the loss and loss adjustment expense reserves for the years ended December 31, 2017, 2016 and 2015:

|                                                                                                          | 2017              | 2016       | 2015       |
|----------------------------------------------------------------------------------------------------------|-------------------|------------|------------|
|                                                                                                          | (\$ in thousands) |            |            |
| Gross reserves for loss and loss adjustment expenses, beginning of year                                  | \$ 605,129        | \$ 466,047 | \$ 277,362 |
| Less: loss and loss adjustment expenses recoverable, beginning of year                                   | (1)               | (125)      | (814)      |
| Net reserves for loss and loss adjustment expenses, beginning of year                                    | 605,128           | 465,922    | 276,548    |
| Increase (decrease) in net loss and loss adjustment expenses incurred in respect of losses occurring in: |                   |            |            |
| Current year                                                                                             | 422,801           | 372,002    | 418,521    |
| Prior years                                                                                              | (51,260)          | 24,976     | (2,474)    |
| Amortization of deferred gains on retroactive reinsurance contracts                                      | (1,483)           | (1,046)    | (856)      |
| Total incurred loss and loss adjustment expenses                                                         | 370,058           | 395,932    | 415,191    |
| Net loss and loss adjustment expenses paid in respect of losses occurring in:                            |                   |            |            |
| Current year                                                                                             | (110,799)         | (105,921)  | (100,403)  |
| Prior years                                                                                              | (162,447)         | (133,241)  | (121,665)  |
| Total net paid losses                                                                                    | (273,246)         | (239,162)  | (222,068)  |
| Foreign currency translation                                                                             | 17,517            | (17,564)   | (3,749)    |
| Net reserves for loss and loss adjustment expenses, end of year                                          | 719,457           | 605,128    | 465,922    |
| Plus: loss and loss adjustment expenses recoverable, end of year                                         | 1,113             | 1          | 125        |
| Gross reserves for loss and loss adjustment expenses, end of year                                        | \$ 720,570        | \$ 605,129 | \$ 466,047 |

Changes in the Company's loss and loss adjustment expense reserves result from re-estimating loss reserves and from changes in premium earnings estimates. Furthermore, many of the Company's 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 \$52.7 million net favorable development in prior years' reserves, which includes amortization of deferred gains, for the year ended December 31, 2017 includes \$22.3 million of net favorable reserve development related to decreases in loss reserve estimates and \$30.4 million decrease in loss reserves resulting from decreases in premium earnings



estimates on certain contracts. The net favorable development 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 \$22.3 million of net favorable prior years' reserve development for the year ended December 31, 2017 was accompanied by net increases of \$19.8 million in acquisition costs, resulting in a \$2.5 million improvement in the net underwriting results, primarily due to:
  - \$5.8 million of net favorable underwriting loss development relating to several workers' compensation contracts written from 2012 to 2014, driven by better than expected loss experience;
  - \$1.3 million of net favorable underwriting loss development from several other contracts as a result of better than expected loss experience; partially offset by
  - \$4.6 million of net adverse underwriting loss development relating to non-standard auto contracts, primarily due to the inability of cedents to promptly react to increasing frequency and severity trends, resulting in underpriced business and adverse selection.
- The \$30.4 million net favorable development in loss and loss adjustment expenses incurred resulting from decreases in premium earnings estimates was accompanied by a \$21.7 million decrease in acquisition costs, for a total of \$52.1 million decrease in loss and loss adjustment expenses incurred and acquisition costs. The decrease in loss and loss adjustment expenses incurred and acquisition costs was due to a decrease in prior period earned premium of \$50.0 million. The decrease in prior period earned premium was the result of changes in ultimate premium and earning pattern estimates. The net impact was an improvement of \$2.1 million to the net underwriting results for the year ended December 31, 2017.
- In total, the change in net underwriting loss for prior periods due to loss reserve development and adjustments to premium earnings estimates resulted in an improvement of \$4.6 million in the net underwriting results for the year ended December 31, 2017.

The \$23.9 million increase in prior years' reserves, which includes amortization of deferred gains, for the year ended December 31, 2016 includes \$10.5 million of net adverse reserve development related to re-estimating loss reserves and \$13.4 million of additional loss reserves resulting from increases in premium earnings 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 \$10.5 million of net adverse prior years' reserve development for the year ended December 31, 2016 was accompanied by net increases of \$2.0 million in acquisition costs, resulting in a net increase of \$12.5 million in net underwriting loss, primarily due to:
  - \$4.8 million of net adverse underwriting loss development relating to one multi-line contract written since 2014. This contract contains underlying commercial auto physical damage and auto extended warranty exposure. The adverse loss experience is a result of an increase in the number of reported claims and inadequate pricing in certain segments of the underlying business;
  - \$4.0 million of net adverse underwriting loss development relating to non-standard auto contracts, primarily due to the inability of cedents to promptly react to increasing frequency and severity trends, resulting in underpriced business and adverse selection;
  - \$3.7 million of net adverse underwriting loss development relating to our Florida homeowners' reinsurance contracts primarily as a result of higher than anticipated water damage claims and an increase in the practice of assignment of benefits whereby homeowners assign their rights for filing and settling claims to attorneys and public adjusters, which has led to increases in the frequency of claims reported as well as the severity of losses and loss adjustment expenses. Contracts for which we experienced this adverse loss development have not been renewed;
  - \$3.3 million of net adverse underwriting loss development relating to a workers' compensation contract written from 2012 to 2014 under which we have been experiencing higher than expected reported claims development that led to an increase in our previous loss assumptions on this contract; and

- \$2.1 million of net favorable underwriting loss development from several other contracts.
- The \$13.4 million increase in loss and loss adjustment expenses incurred related to the increase in premium earnings estimates on certain contracts was accompanied by a \$6.4 million increase in acquisition costs, for a total of \$19.8 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 \$19.5 million, resulting in a \$0.3 million increase to the net underwriting loss for the year ended December 31, 2016.
- In total, the change in net underwriting loss for prior periods due to loss reserve development and adjustments to premium earnings estimates was an increase in net underwriting loss of \$12.8 million for the year ended December 31, 2016.

The \$3.3 million net favorable development in prior years' reserves, which includes amortization of deferred gains, for the year ended December 31, 2015 includes \$5.4 million of net favorable reserve development related to re-estimating loss reserves and \$2.1 million of additional loss reserves resulting from increases in premium earnings estimates on certain contracts. The net favorable reserve development 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 net \$5.4 million of favorable prior years' reserve development for the year ended December 31, 2015 was accompanied by net increases of \$13.2 million in acquisition costs, resulting in a net increase of \$7.8 million in net underwriting loss. The \$7.8 million net increase in net underwriting loss was a result of having favorable loss reserve development on certain contracts that was either fully or partially offset by increases in sliding scale or profit commissions whereas certain workers' compensation, auto and property contracts with adverse loss development did not have offsetting decreases in acquisition costs to the same degree, resulting in the net favorable development being more than offset by acquisition costs in the period.
- The \$2.1 million increase in loss and loss adjustment expenses incurred related to the increase in premium estimates on certain contracts was accompanied by similar changes in the net premiums earned and acquisition costs for those contracts, resulting in a net decrease of \$0.3 million in net underwriting loss for the year ended December 31, 2015.
- In total, loss reserve development related to re-estimating loss reserves and increases in premium earnings estimates for prior years resulted in an increase of \$7.5 million in net underwriting loss for the year ended December 31, 2015.

The net paid losses included \$24.8 million, \$1.0 million and \$79.1 million of paid losses related to contracts that were commuted during the years ended December 31, 2017, 2016 and 2015, respectively.

#### **Incurred and paid development tables by accident year**

The Company manages its business on the basis of one operating segment, property and casualty reinsurance. The Company has disaggregated its loss information presented in the tables below by prospective and retroactive reinsurance. For its prospective reinsurance business, the Company further disaggregated by the different lines of business included in this segment. The Company's retroactive reinsurance contracts have been presented by year of inception. The Company's retroactive reinsurance contracts within each inception year share similar characteristics and as a result, have not been disaggregated further. The Company has presented the below development tables for all accident years shown using exchange rates as at December 31, 2017. All accident years prior to the current year have been restated and presented using the current year exchange rate.

The Company's loss reserve analysis is based primarily on underwriting year data. The preparation of accident year development tables requires an allocation of underwriting year data to the corresponding accident years. For instance, a contract written in one particular underwriting year may have exposure to losses from two or more accident years. These allocations are done using accident year loss payment and reporting patterns, along with premium earnings patterns. These patterns are derived from either company-specific or industry historical loss data, depending on availability and applicability. The Company believes that its allocations are reasonable; however, to the extent that the Company's allocation procedure for loss and loss adjustment expenses incurred differs from actual historical development, the actual loss development may differ materially from the loss development presented.

As described in the roll forward of loss and loss adjustment expense reserves section above, changes in the Company's loss and loss adjustment expense reserves result from both re-estimating loss reserves as well as changes in premium estimates. In addition, many of the Company's contracts have sliding scale or profit commissions whereby loss reserve development can be offset by changes in acquisition costs. See additional disclosure above on the net impact on underwriting income after considering the impact of changes in premium estimates and the impact of acquisition costs for the years ended December 31, 2017, 2016 and 2015.

### Property and Casualty Reinsurance - Prospective Reinsurance Contracts

The following tables provide a breakdown of the Company's loss and loss adjustment expenses incurred, net and net loss and loss adjustment expenses paid by accident year by line of business for the Company's prospective reinsurance contracts for the years ended December 31, 2017 and 2016. The information related to loss and loss adjustment expenses incurred, net and net loss and loss adjustment expenses paid for the years ended December 31, 2012 through 2016 is presented as supplementary information and is unaudited:

#### Property

| Loss and loss adjustment expenses incurred, net |           |          |          |          |          |                   |           | IBNR loss<br>and LAE<br>reserves, net |
|-------------------------------------------------|-----------|----------|----------|----------|----------|-------------------|-----------|---------------------------------------|
| Accident year                                   | 2012      | 2013     | 2014     | 2015     | 2016     | 2017              |           |                                       |
| (\$ in thousands)                               |           |          |          |          |          |                   |           |                                       |
| <----- Unaudited ----->                         |           |          |          |          |          |                   |           |                                       |
| 2012                                            | \$ 10,917 | \$ 8,672 | \$ 9,375 | \$ 9,353 | \$ 9,416 | \$ 9,472          | \$        | 31                                    |
| 2013                                            | —         | 27,765   | 24,980   | 25,766   | 25,882   | 25,785            |           | 101                                   |
| 2014                                            | —         | —        | 40,256   | 40,920   | 41,336   | 44,627            |           | 640                                   |
| 2015                                            | —         | —        | —        | 50,330   | 52,533   | 54,635            |           | 3,706                                 |
| 2016                                            | —         | —        | —        | —        | 45,415   | 43,038            |           | 7,579                                 |
| 2017                                            | —         | —        | —        | —        | —        | 41,237            |           | 12,153                                |
| <b>Total</b>                                    |           |          |          |          |          | <u>\$ 218,794</u> | <u>\$</u> | <u>24,210</u>                         |

| Cumulative net losses and loss adjustment expenses paid                    |          |          |          |          |          |                   |  |
|----------------------------------------------------------------------------|----------|----------|----------|----------|----------|-------------------|--|
| Accident year                                                              | 2012     | 2013     | 2014     | 2015     | 2016     | 2017              |  |
| (\$ in thousands)                                                          |          |          |          |          |          |                   |  |
| <----- Unaudited ----->                                                    |          |          |          |          |          |                   |  |
| 2012                                                                       | \$ 4,656 | \$ 8,381 | \$ 9,075 | \$ 9,186 | \$ 9,352 | \$ 9,400          |  |
| 2013                                                                       | —        | 14,635   | 22,229   | 24,023   | 25,167   | 25,406            |  |
| 2014                                                                       | —        | —        | 19,420   | 34,381   | 38,448   | 42,775            |  |
| 2015                                                                       | —        | —        | —        | 22,706   | 43,382   | 48,360            |  |
| 2016                                                                       | —        | —        | —        | —        | 21,593   | 31,871            |  |
| 2017                                                                       | —        | —        | —        | —        | —        | 24,713            |  |
| <b>Total</b>                                                               |          |          |          |          |          | <u>\$ 182,525</u> |  |
| Property - net reserves for loss and loss adjustment expenses, end of year |          |          |          |          |          | <u>\$ 36,269</u>  |  |

Workers' Compensation

| Loss and loss adjustment expenses incurred, net                                         |          |          |          |          |          |                   |                  | IBNR loss<br>and LAE<br>reserves, net |
|-----------------------------------------------------------------------------------------|----------|----------|----------|----------|----------|-------------------|------------------|---------------------------------------|
| Accident year                                                                           | 2012     | 2013     | 2014     | 2015     | 2016     | 2017              |                  |                                       |
| (\$ in thousands)                                                                       |          |          |          |          |          |                   |                  |                                       |
| <----- Unaudited ----->                                                                 |          |          |          |          |          |                   |                  |                                       |
| 2012                                                                                    | \$ 4,037 | \$ 4,534 | \$ 5,066 | \$ 5,596 | \$ 5,715 | \$ 5,720          | \$ 78            |                                       |
| 2013                                                                                    | —        | 27,449   | 28,616   | 33,365   | 33,449   | 33,252            | 2,107            |                                       |
| 2014                                                                                    | —        | —        | 40,247   | 46,568   | 47,200   | 43,470            | 6,698            |                                       |
| 2015                                                                                    | —        | —        | —        | 35,749   | 37,138   | 34,800            | 10,077           |                                       |
| 2016                                                                                    | —        | —        | —        | —        | 40,433   | 39,205            | 15,461           |                                       |
| 2017                                                                                    | —        | —        | —        | —        | —        | 41,075            | 27,972           |                                       |
| <b>Total</b>                                                                            |          |          |          |          |          | <u>\$ 197,522</u> | <u>\$ 62,393</u> |                                       |
| Cumulative net losses and loss adjustment expenses paid                                 |          |          |          |          |          |                   |                  |                                       |
| Accident year                                                                           | 2012     | 2013     | 2014     | 2015     | 2016     | 2017              |                  |                                       |
| (\$ in thousands)                                                                       |          |          |          |          |          |                   |                  |                                       |
| <----- Unaudited ----->                                                                 |          |          |          |          |          |                   |                  |                                       |
| 2012                                                                                    | \$ 93    | \$ 624   | \$ 3,017 | \$ 4,280 | \$ 4,969 | \$ 4,796          |                  |                                       |
| 2013                                                                                    | —        | 2,587    | 9,142    | 16,840   | 22,826   | 26,956            |                  |                                       |
| 2014                                                                                    | —        | —        | 4,073    | 15,947   | 24,280   | 29,573            |                  |                                       |
| 2015                                                                                    | —        | —        | —        | 2,669    | 10,755   | 17,001            |                  |                                       |
| 2016                                                                                    | —        | —        | —        | —        | 3,985    | 13,236            |                  |                                       |
| 2017                                                                                    | —        | —        | —        | —        | —        | 4,586             |                  |                                       |
| <b>Total</b>                                                                            |          |          |          |          |          | <u>\$ 96,148</u>  |                  |                                       |
| Workers' Compensation - net reserves for loss and loss adjustment expenses, end of year |          |          |          |          |          | <u>\$ 101,374</u> |                  |                                       |

Auto

| Loss and loss adjustment expenses incurred, net                        |           |           |           |           |           |                   |                  | IBNR loss<br>and LAE<br>reserves, net |
|------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-------------------|------------------|---------------------------------------|
| Accident year                                                          | 2012      | 2013      | 2014      | 2015      | 2016      | 2017              |                  |                                       |
| (\$ in thousands)                                                      |           |           |           |           |           |                   |                  |                                       |
| <----- Unaudited ----->                                                |           |           |           |           |           |                   |                  |                                       |
| 2012                                                                   | \$ 13,247 | \$ 12,264 | \$ 11,777 | \$ 11,534 | \$ 11,433 | \$ 11,333         | \$ 10            |                                       |
| 2013                                                                   | —         | 20,830    | 19,990    | 19,472    | 19,338    | 19,482            | 61               |                                       |
| 2014                                                                   | —         | —         | 104,896   | 103,473   | 103,568   | 103,661           | 347              |                                       |
| 2015                                                                   | —         | —         | —         | 82,677    | 88,705    | 89,550            | 1,109            |                                       |
| 2016                                                                   | —         | —         | —         | —         | 77,785    | 85,903            | 3,226            |                                       |
| 2017                                                                   | —         | —         | —         | —         | —         | 48,758            | 16,932           |                                       |
| <b>Total</b>                                                           |           |           |           |           |           | <u>\$ 358,687</u> | <u>\$ 21,685</u> |                                       |
| Cumulative net losses and loss adjustment expenses paid                |           |           |           |           |           |                   |                  |                                       |
| Accident year                                                          | 2012      | 2013      | 2014      | 2015      | 2016      | 2017              |                  |                                       |
| (\$ in thousands)                                                      |           |           |           |           |           |                   |                  |                                       |
| <----- Unaudited ----->                                                |           |           |           |           |           |                   |                  |                                       |
| 2012                                                                   | \$ 5,619  | \$ 9,989  | \$ 11,387 | \$ 11,450 | \$ 11,382 | \$ 11,318         |                  |                                       |
| 2013                                                                   | —         | 8,673     | 17,244    | 18,686    | 19,066    | 19,363            |                  |                                       |
| 2014                                                                   | —         | —         | 45,766    | 97,651    | 101,626   | 102,868           |                  |                                       |
| 2015                                                                   | —         | —         | —         | 42,451    | 80,765    | 86,100            |                  |                                       |
| 2016                                                                   | —         | —         | —         | —         | 38,059    | 77,511            |                  |                                       |
| 2017                                                                   | —         | —         | —         | —         | —         | 23,546            |                  |                                       |
| <b>Total</b>                                                           |           |           |           |           |           | <u>\$ 320,706</u> |                  |                                       |
| Auto - net reserves for loss and loss adjustment expenses, end of year |           |           |           |           |           | <u>\$ 37,981</u>  |                  |                                       |

*Other Casualty*

| Loss and loss adjustment expenses incurred, net                                  |      |      |       |        |        |                   |                   | IBNR loss<br>and LAE<br>reserves, net |
|----------------------------------------------------------------------------------|------|------|-------|--------|--------|-------------------|-------------------|---------------------------------------|
| Accident year                                                                    | 2012 | 2013 | 2014  | 2015   | 2016   | 2017              |                   |                                       |
| (\$ in thousands)                                                                |      |      |       |        |        |                   |                   |                                       |
| Unaudited                                                                        |      |      |       |        |        |                   |                   |                                       |
| 2012                                                                             | \$ — | \$ — | \$ —  | \$ —   | \$ —   | \$ —              | \$ —              | \$ —                                  |
| 2013                                                                             | —    | —    | —     | —      | —      | —                 | —                 | —                                     |
| 2014                                                                             | —    | —    | 5,480 | 7,519  | 7,316  | 4,903             | 1,644             | 1,644                                 |
| 2015                                                                             | —    | —    | —     | 45,558 | 48,315 | 33,396            | 16,381            | 16,381                                |
| 2016                                                                             | —    | —    | —     | —      | 63,082 | 52,118            | 36,975            | 36,975                                |
| 2017                                                                             | —    | —    | —     | —      | —      | 70,183            | 66,396            | 66,396                                |
| <b>Total</b>                                                                     |      |      |       |        |        | <b>\$ 160,600</b> | <b>\$ 121,396</b> |                                       |
| Cumulative net losses and loss adjustment expenses paid                          |      |      |       |        |        |                   |                   |                                       |
| Accident year                                                                    | 2012 | 2013 | 2014  | 2015   | 2016   | 2017              |                   |                                       |
| (\$ in thousands)                                                                |      |      |       |        |        |                   |                   |                                       |
| Unaudited                                                                        |      |      |       |        |        |                   |                   |                                       |
| 2012                                                                             | \$ — | \$ — | \$ —  | \$ —   | \$ —   | \$ —              | —                 | —                                     |
| 2013                                                                             | —    | —    | —     | —      | —      | —                 | —                 | —                                     |
| 2014                                                                             | —    | —    | 16    | 340    | 1,390  | 2,226             | —                 | —                                     |
| 2015                                                                             | —    | —    | —     | 310    | 3,612  | 9,053             | —                 | —                                     |
| 2016                                                                             | —    | —    | —     | —      | 621    | 6,165             | —                 | —                                     |
| 2017                                                                             | —    | —    | —     | —      | —      | 1,418             | —                 | —                                     |
| <b>Total</b>                                                                     |      |      |       |        |        | <b>\$ 18,862</b>  |                   |                                       |
| Other Casualty - net reserves for loss and loss adjustment expenses, end of year |      |      |       |        |        |                   | <b>\$ 141,738</b> |                                       |

*Credit & Financial Lines*

| Loss and loss adjustment expenses incurred, net                                            |      |      |       |       |        |                  |                  | IBNR loss<br>and LAE<br>reserves, net |
|--------------------------------------------------------------------------------------------|------|------|-------|-------|--------|------------------|------------------|---------------------------------------|
| Accident year                                                                              | 2012 | 2013 | 2014  | 2015  | 2016   | 2017             |                  |                                       |
| (\$ in thousands)                                                                          |      |      |       |       |        |                  |                  |                                       |
| Unaudited                                                                                  |      |      |       |       |        |                  |                  |                                       |
| 2012                                                                                       | \$ — | \$ — | \$ —  | \$ —  | \$ —   | \$ —             | \$ —             | \$ —                                  |
| 2013                                                                                       | —    | 364  | 408   | 113   | 107    | 99               | 22               | 22                                    |
| 2014                                                                                       | —    | —    | 5,846 | 2,653 | 2,427  | 2,204            | 859              | 859                                   |
| 2015                                                                                       | —    | —    | —     | 5,245 | 5,044  | 4,758            | 1,834            | 1,834                                 |
| 2016                                                                                       | —    | —    | —     | —     | 10,743 | 10,729           | 6,478            | 6,478                                 |
| 2017                                                                                       | —    | —    | —     | —     | —      | 13,768           | 11,960           | 11,960                                |
| <b>Total</b>                                                                               |      |      |       |       |        | <b>\$ 31,558</b> | <b>\$ 21,153</b> |                                       |
| Cumulative net losses and loss adjustment expenses paid                                    |      |      |       |       |        |                  |                  |                                       |
| Accident year                                                                              | 2012 | 2013 | 2014  | 2015  | 2016   | 2017             |                  |                                       |
| (\$ in thousands)                                                                          |      |      |       |       |        |                  |                  |                                       |
| Unaudited                                                                                  |      |      |       |       |        |                  |                  |                                       |
| 2012                                                                                       | \$ — | \$ — | \$ —  | \$ —  | \$ —   | \$ —             | —                | —                                     |
| 2013                                                                                       | —    | —    | 11    | 66    | 74     | 78               | —                | —                                     |
| 2014                                                                                       | —    | —    | 42    | 784   | 1,038  | 1,318            | —                | —                                     |
| 2015                                                                                       | —    | —    | —     | 402   | 1,128  | 2,045            | —                | —                                     |
| 2016                                                                                       | —    | —    | —     | —     | 1,013  | 2,326            | —                | —                                     |
| 2017                                                                                       | —    | —    | —     | —     | —      | 1,100            | —                | —                                     |
| <b>Total</b>                                                                               |      |      |       |       |        | <b>\$ 6,867</b>  |                  |                                       |
| Credit & Financial Lines - net reserves for loss and loss adjustment expenses, end of year |      |      |       |       |        |                  | <b>\$ 24,691</b> |                                       |

Multi-line

| Loss and loss adjustment expenses incurred, net                              |      |        |        |        |         |            |            | IBNR loss<br>and LAE<br>reserves, net |
|------------------------------------------------------------------------------|------|--------|--------|--------|---------|------------|------------|---------------------------------------|
| Accident year                                                                | 2012 | 2013   | 2014   | 2015   | 2016    | 2017       |            |                                       |
| (\$ in thousands)                                                            |      |        |        |        |         |            |            |                                       |
| Unaudited                                                                    |      |        |        |        |         |            |            |                                       |
| 2012                                                                         | \$ — | \$ —   | \$ —   | \$ —   | \$ —    | \$ —       | \$ —       | \$ —                                  |
| 2013                                                                         | —    | 23,282 | 4,272  | 4,564  | 4,564   | 4,564      | —          | —                                     |
| 2014                                                                         | —    | —      | 41,188 | 34,570 | 37,738  | 35,489     | 16,338     | 16,338                                |
| 2015                                                                         | —    | —      | —      | 86,605 | 100,023 | 107,837    | 30,203     | 30,203                                |
| 2016                                                                         | —    | —      | —      | —      | 132,050 | 121,723    | 37,665     | 37,665                                |
| 2017                                                                         | —    | —      | —      | —      | —       | 101,037    | 39,451     | 39,451                                |
| Total                                                                        |      |        |        |        |         | \$ 370,650 | \$ 123,657 | \$ 123,657                            |
| Cumulative net losses and loss adjustment expenses paid                      |      |        |        |        |         |            |            |                                       |
| Accident year                                                                | 2012 | 2013   | 2014   | 2015   | 2016    | 2017       |            |                                       |
| (\$ in thousands)                                                            |      |        |        |        |         |            |            |                                       |
| Unaudited                                                                    |      |        |        |        |         |            |            |                                       |
| 2012                                                                         | \$ — | \$ —   | \$ —   | \$ —   | \$ —    | \$ —       | \$ —       | \$ —                                  |
| 2013                                                                         | —    | —      | 1,243  | 4,563  | 4,563   | 4,563      | —          | —                                     |
| 2014                                                                         | —    | —      | 1,245  | 14,289 | 19,476  | 18,969     | —          | —                                     |
| 2015                                                                         | —    | —      | —      | 30,914 | 58,792  | 74,646     | —          | —                                     |
| 2016                                                                         | —    | —      | —      | —      | 39,413  | 76,791     | —          | —                                     |
| 2017                                                                         | —    | —      | —      | —      | —       | 54,216     | —          | —                                     |
| Total                                                                        |      |        |        |        |         | \$ 229,185 | \$ 229,185 | \$ 229,185                            |
| Multi-line - net reserves for loss and loss adjustment expenses, end of year |      |        |        |        |         | \$ 141,465 | \$ 141,465 | \$ 141,465                            |

Other Specialty

| Loss and loss adjustment expenses incurred, net                                   |           |           |           |           |           |           |           | IBNR loss<br>and LAE<br>reserves, net |
|-----------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------------------------------------|
| Accident year                                                                     | 2012      | 2013      | 2014      | 2015      | 2016      | 2017      |           |                                       |
| (\$ in thousands)                                                                 |           |           |           |           |           |           |           |                                       |
| Unaudited                                                                         |           |           |           |           |           |           |           |                                       |
| 2012                                                                              | \$ 52,105 | \$ 49,942 | \$ 50,055 | \$ 50,055 | \$ 50,065 | \$ 50,104 | \$ 1      | \$ 1                                  |
| 2013                                                                              | —         | 2,308     | 24,274    | 23,450    | 23,138    | 23,135    | 1         | 1                                     |
| 2014                                                                              | —         | —         | —         | —         | —         | —         | —         | —                                     |
| 2015                                                                              | —         | —         | —         | —         | —         | —         | —         | —                                     |
| 2016                                                                              | —         | —         | —         | —         | —         | —         | —         | —                                     |
| 2017                                                                              | —         | —         | —         | —         | —         | 4,033     | 4,029     | 4,029                                 |
| Total                                                                             |           |           |           |           |           | \$ 77,272 | \$ 4,031  | \$ 4,031                              |
| Cumulative net losses and loss adjustment expenses paid                           |           |           |           |           |           |           |           |                                       |
| Accident year                                                                     | 2012      | 2013      | 2014      | 2015      | 2016      | 2017      |           |                                       |
| (\$ in thousands)                                                                 |           |           |           |           |           |           |           |                                       |
| Unaudited                                                                         |           |           |           |           |           |           |           |                                       |
| 2012                                                                              | \$ 2,666  | \$ 48,455 | \$ 50,024 | \$ 50,025 | \$ 50,067 | \$ 50,103 | —         | —                                     |
| 2013                                                                              | —         | —         | 22,232    | 23,138    | 23,134    | 23,135    | —         | —                                     |
| 2014                                                                              | —         | —         | —         | —         | —         | —         | —         | —                                     |
| 2015                                                                              | —         | —         | —         | —         | —         | —         | —         | —                                     |
| 2016                                                                              | —         | —         | —         | —         | —         | —         | —         | —                                     |
| 2017                                                                              | —         | —         | —         | —         | —         | 4         | —         | —                                     |
| Total                                                                             |           |           |           |           |           | \$ 73,242 | \$ 73,242 | \$ 73,242                             |
| Other Specialty - net reserves for loss and loss adjustment expenses, end of year |           |           |           |           |           | \$ 4,030  | \$ 4,030  | \$ 4,030                              |

### **Property and Casualty Reinsurance - Retroactive Reinsurance Contracts**

The Company writes reinsurance contracts that provide limited protection against adverse development on loss originating from multiple accident years. The Company has other retroactive exposure within contracts that provide primarily prospective coverage. These contracts are included in the prospective reinsurance tables above. These contracts are typically part of prospective reinsurance contracts with a small portion of retroactive exposure resulting from the delay between the dates when the relevant contract was bound and the dates on which each inceptioned. The information below includes loss and loss adjustment expenses incurred, net and loss and loss adjustment expenses paid, net, by accident year for the Company's retroactive reinsurance contracts presented by year of inception of the retroactive reinsurance contracts.

The Company's estimate for loss and loss adjustment expenses incurred, net, at inception of all retroactive reinsurance contracts entered into to date was the same when the contract inceptioned and at the relevant year end position. As a result, there was no development in the year of inception for any of the Company's retroactive reinsurance contracts written to date. In addition, there were no loss and loss adjustment expenses paid, net, at inception of the Company's retroactive reinsurance contracts. The information related to loss and loss adjustment expenses incurred, net and net loss and loss adjustment expenses paid for the years ended December 31, 2012 through 2016 is presented as supplementary information and is unaudited.

#### *Contracts inceptioning in the year ended December 31, 2012*

The Company did not enter into any retroactive reinsurance contracts during the year ended December 31, 2012.

*Contracts incepting in the year ended December 31, 2013*

| Loss and loss adjustment expenses incurred, net                                                                           |      |        |      |       |      |       |      |       |      |           |                                 |      |
|---------------------------------------------------------------------------------------------------------------------------|------|--------|------|-------|------|-------|------|-------|------|-----------|---------------------------------|------|
| Accident year                                                                                                             | 2013 |        | 2014 |       | 2015 |       | 2016 |       | 2017 |           | IBNR loss and LAE reserves, net |      |
| (\$ in thousands)                                                                                                         |      |        |      |       |      |       |      |       |      |           |                                 |      |
| <----- Unaudited ----->                                                                                                   |      |        |      |       |      |       |      |       |      |           |                                 |      |
| 2008                                                                                                                      | \$   | —      | \$   | —     | \$   | —     | \$   | —     | \$   | —         | \$                              | —    |
| 2009                                                                                                                      |      | —      |      | —     |      | —     |      | —     |      | —         |                                 | —    |
| 2010                                                                                                                      |      | 914    |      | 704   |      | 704   |      | 704   |      | 704       |                                 | —    |
| 2011                                                                                                                      |      | 5,419  |      | 4,173 |      | 4,173 |      | 4,173 |      | 4,173     |                                 | —    |
| 2012                                                                                                                      |      | 10,197 |      | 7,853 |      | 7,853 |      | 7,853 |      | 7,853     |                                 | —    |
| 2013                                                                                                                      |      | 4,908  |      | 3,779 |      | 3,779 |      | 3,779 |      | 3,779     |                                 | —    |
| 2014                                                                                                                      |      | —      |      | —     |      | —     |      | —     |      | —         |                                 | —    |
| 2015                                                                                                                      |      | —      |      | —     |      | —     |      | —     |      | —         |                                 | —    |
| 2016                                                                                                                      |      | —      |      | —     |      | —     |      | —     |      | —         |                                 | —    |
| 2017                                                                                                                      |      | —      |      | —     |      | —     |      | —     |      | —         |                                 | —    |
| Total                                                                                                                     |      |        |      |       |      |       |      |       |      | \$ 16,509 |                                 | \$ — |
| Cumulative net loss and loss adjustment expenses paid                                                                     |      |        |      |       |      |       |      |       |      |           |                                 |      |
| Accident year                                                                                                             | 2013 |        | 2014 |       | 2015 |       | 2016 |       | 2017 |           |                                 |      |
| (\$ in thousands)                                                                                                         |      |        |      |       |      |       |      |       |      |           |                                 |      |
| <----- Unaudited ----->                                                                                                   |      |        |      |       |      |       |      |       |      |           |                                 |      |
| 2008                                                                                                                      | \$   | —      | \$   | —     | \$   | —     | \$   | —     | \$   | —         |                                 |      |
| 2009                                                                                                                      |      | —      |      | —     |      | —     |      | —     |      | —         |                                 |      |
| 2010                                                                                                                      |      | —      |      | 279   |      | 704   |      | 704   |      | 704       |                                 |      |
| 2011                                                                                                                      |      | —      |      | 1,654 |      | 4,173 |      | 4,173 |      | 4,173     |                                 |      |
| 2012                                                                                                                      |      | —      |      | 3,113 |      | 7,853 |      | 7,853 |      | 7,853     |                                 |      |
| 2013                                                                                                                      |      | —      |      | 1,498 |      | 3,779 |      | 3,779 |      | 3,779     |                                 |      |
| 2014                                                                                                                      |      | —      |      | —     |      | —     |      | —     |      | —         |                                 |      |
| 2015                                                                                                                      |      | —      |      | —     |      | —     |      | —     |      | —         |                                 |      |
| 2016                                                                                                                      |      | —      |      | —     |      | —     |      | —     |      | —         |                                 |      |
| 2017                                                                                                                      |      | —      |      | —     |      | —     |      | —     |      | —         |                                 |      |
| Total                                                                                                                     |      |        |      |       |      |       |      |       |      | \$ 16,509 |                                 |      |
| Net reserves for loss and loss adjustment expenses from 2008 to 2017                                                      |      |        |      |       |      |       |      |       |      |           | —                               |      |
| Net reserves for loss and loss adjustment expenses prior to 2008                                                          |      |        |      |       |      |       |      |       |      |           | 12,402                          |      |
| Contracts incepting in the year ended December 31, 2013 - net reserves for loss and loss adjustment expenses, end of year |      |        |      |       |      |       |      |       |      |           | \$ 12,402                       |      |



*Contracts incepting in the year ended December 31, 2014*

| Loss and loss adjustment expenses incurred, net |                         |        |        |                  |                                 |
|-------------------------------------------------|-------------------------|--------|--------|------------------|---------------------------------|
| Accident year                                   | 2014                    | 2015   | 2016   | 2017             | IBNR loss and LAE reserves, net |
|                                                 | (\$ in thousands)       |        |        |                  |                                 |
|                                                 | <----- Unaudited -----> |        |        |                  |                                 |
| 2008                                            | \$ 281                  | \$ —   | \$ —   | \$ —             | \$ —                            |
| 2009                                            | 382                     | —      | —      | —                | —                               |
| 2010                                            | 444                     | —      | —      | —                | —                               |
| 2011                                            | 4,184                   | 3,411  | 3,025  | 3,231            | 3,231                           |
| 2012                                            | 12,002                  | 10,658 | 9,451  | 10,094           | 10,094                          |
| 2013                                            | 18,640                  | 16,715 | 14,822 | 15,831           | 15,831                          |
| 2014                                            | 10,548                  | 9,469  | 8,396  | 8,968            | 8,968                           |
| 2015                                            | —                       | —      | —      | —                | —                               |
| 2016                                            | —                       | —      | —      | —                | —                               |
| 2017                                            | —                       | —      | —      | —                | —                               |
| <b>Total</b>                                    |                         |        |        | <b>\$ 38,124</b> | <b>\$ 38,124</b>                |

| Cumulative net loss and loss adjustment expenses paid                                                                     |                         |      |      |                  |
|---------------------------------------------------------------------------------------------------------------------------|-------------------------|------|------|------------------|
| Accident year                                                                                                             | 2014                    | 2015 | 2016 | 2017             |
|                                                                                                                           | (\$ in thousands)       |      |      |                  |
|                                                                                                                           | <----- Unaudited -----> |      |      |                  |
| 2008                                                                                                                      | \$ —                    | \$ — | \$ — | \$ —             |
| 2009                                                                                                                      | —                       | —    | —    | —                |
| 2010                                                                                                                      | —                       | —    | —    | —                |
| 2011                                                                                                                      | —                       | —    | —    | —                |
| 2012                                                                                                                      | —                       | —    | —    | —                |
| 2013                                                                                                                      | —                       | —    | —    | —                |
| 2014                                                                                                                      | —                       | —    | —    | —                |
| 2015                                                                                                                      | —                       | —    | —    | —                |
| 2016                                                                                                                      | —                       | —    | —    | —                |
| 2017                                                                                                                      | —                       | —    | —    | —                |
| <b>Total</b>                                                                                                              |                         |      |      | <b>\$ —</b>      |
| Net reserves for loss and loss adjustment expenses from 2008 to 2017                                                      |                         |      |      | 38,124           |
| Net reserves for loss and loss adjustment expenses prior to 2008                                                          |                         |      |      | —                |
| Contracts incepting in the year ended December 31, 2014 - net reserves for loss and loss adjustment expenses, end of year |                         |      |      | <b>\$ 38,124</b> |

*Contracts incepting in the year ended December 31, 2015*

| Loss and loss adjustment expenses incurred, net |                         |          |                  |                  | IBNR loss<br>and LAE<br>reserves, net |
|-------------------------------------------------|-------------------------|----------|------------------|------------------|---------------------------------------|
| Accident year                                   | 2015                    | 2016     | 2017             |                  |                                       |
|                                                 | (\$ in thousands)       |          |                  |                  |                                       |
|                                                 | <----- Unaudited -----> |          |                  |                  |                                       |
| 2008                                            | \$ 2,010                | \$ 2,010 | \$ 1,385         | \$ 1,385         |                                       |
| 2009                                            | 2,510                   | 2,510    | 1,729            | 1,729            |                                       |
| 2010                                            | 24,750                  | 24,750   | 19,100           | 19,100           |                                       |
| 2011                                            | 21,238                  | 21,238   | 16,350           | 16,350           |                                       |
| 2012                                            | 15,917                  | 15,917   | 12,223           | 12,223           |                                       |
| 2013                                            | 13,616                  | 13,616   | 10,400           | 10,400           |                                       |
| 2014                                            | 15,802                  | 15,802   | 12,095           | 12,095           |                                       |
| 2015                                            | 2,596                   | 2,596    | 1,788            | 1,788            |                                       |
| 2016                                            | —                       | —        | —                | —                |                                       |
| 2017                                            | —                       | —        | —                | —                |                                       |
| <b>Total</b>                                    |                         |          | <b>\$ 75,070</b> | <b>\$ 75,070</b> |                                       |

| Cumulative net loss and loss adjustment expenses paid                                                                     |                         |      |                  |  |
|---------------------------------------------------------------------------------------------------------------------------|-------------------------|------|------------------|--|
| Accident year                                                                                                             | 2015                    | 2016 | 2017             |  |
|                                                                                                                           | (\$ in thousands)       |      |                  |  |
|                                                                                                                           | <----- Unaudited -----> |      |                  |  |
| 2008                                                                                                                      | \$ —                    | \$ — | \$ —             |  |
| 2009                                                                                                                      | —                       | —    | —                |  |
| 2010                                                                                                                      | —                       | —    | —                |  |
| 2011                                                                                                                      | —                       | —    | —                |  |
| 2012                                                                                                                      | —                       | —    | —                |  |
| 2013                                                                                                                      | —                       | —    | —                |  |
| 2014                                                                                                                      | —                       | —    | —                |  |
| 2015                                                                                                                      | —                       | —    | —                |  |
| 2016                                                                                                                      | —                       | —    | —                |  |
| 2017                                                                                                                      | —                       | —    | —                |  |
| <b>Total</b>                                                                                                              |                         |      | <b>\$ —</b>      |  |
| Net reserves for loss and loss adjustment expenses from 2008 to 2017                                                      |                         |      | 75,070           |  |
| Net reserves for loss and loss adjustment expenses prior to 2008                                                          |                         |      | 328              |  |
| Contracts incepting in the year ended December 31, 2015 - net reserves for loss and loss adjustment expenses, end of year |                         |      | <b>\$ 75,398</b> |  |

*Contracts incepting in the year ended December 31, 2016*

The Company did not enter into any retroactive reinsurance contracts during the year ended December 31, 2016.

*Contracts incepting in the year ended December 31, 2017*

| Loss and loss adjustment expenses incurred, net |                   |                                 |
|-------------------------------------------------|-------------------|---------------------------------|
| Accident year                                   | 2017              | IBNR loss and LAE reserves, net |
|                                                 | (\$ in thousands) |                                 |
| 2008                                            | \$ 183            | \$ 183                          |
| 2009                                            | 317               | 317                             |
| 2010                                            | 445               | 445                             |
| 2011                                            | 1,678             | 1,678                           |
| 2012                                            | 2,227             | 2,227                           |
| 2013                                            | 3,425             | 3,425                           |
| 2014                                            | 9,788             | 9,788                           |
| 2015                                            | 12,865            | 12,865                          |
| 2016                                            | 24,375            | 24,375                          |
| 2017                                            | 49,994            | 49,994                          |
| <b>Total</b>                                    | <b>\$ 105,297</b> | <b>\$ 105,297</b>               |

| Cumulative net loss and loss adjustment expenses paid |                   |  |
|-------------------------------------------------------|-------------------|--|
| Accident year                                         | 2017              |  |
|                                                       | (\$ in thousands) |  |
| 2008                                                  | \$ —              |  |
| 2009                                                  | —                 |  |
| 2010                                                  | —                 |  |
| 2011                                                  | —                 |  |
| 2012                                                  | —                 |  |
| 2013                                                  | —                 |  |
| 2014                                                  | —                 |  |
| 2015                                                  | —                 |  |
| 2016                                                  | —                 |  |
| 2017                                                  | —                 |  |
| <b>Total</b>                                          | <b>\$ —</b>       |  |

|                                                                                                                           |                   |
|---------------------------------------------------------------------------------------------------------------------------|-------------------|
| Net reserves for loss and loss adjustment expenses from 2008 to 2017                                                      | 105,297           |
| Net reserves for loss and loss adjustment expenses prior to 2008                                                          | —                 |
| Contracts incepting in the year ended December 31, 2017 - net reserves for loss and loss adjustment expenses, end of year | <b>\$ 105,297</b> |

## Reconciliation of loss development information to loss and loss adjustment expense reserves

The following table provides a reconciliation of the Company's loss and loss expense reserves as of December 31, 2017:

|                                                                          | 2017              |
|--------------------------------------------------------------------------|-------------------|
|                                                                          | (\$ in thousands) |
| <b>Prospective reinsurance contracts</b>                                 |                   |
| Property                                                                 | \$ 36,269         |
| Workers' Compensation                                                    | 101,374           |
| Auto                                                                     | 37,981            |
| Other Casualty                                                           | 141,738           |
| Credit & Financial Lines                                                 | 24,691            |
| Multi-line                                                               | 141,465           |
| Other Specialty                                                          | 4,030             |
| <b>Retroactive reinsurance contracts</b>                                 |                   |
| Contracts incepting in the year ended December 31, 2012                  | —                 |
| Contracts incepting in the year ended December 31, 2013                  | 12,402            |
| Contracts incepting in the year ended December 31, 2014                  | 38,124            |
| Contracts incepting in the year ended December 31, 2015                  | 75,398            |
| Contracts incepting in the year ended December 31, 2016                  | —                 |
| Contracts incepting in the year ended December 31, 2017                  | 105,297           |
| Net reserves for loss and loss adjustment expenses, end of year          | 718,769           |
| <b>Loss and loss adjustment expenses recoverable</b>                     |                   |
| Property                                                                 | 1,113             |
| Deferred gains on retroactive reinsurance contracts                      | 688               |
| <b>Gross reserves for loss and loss adjustment expenses, end of year</b> | <b>\$ 720,570</b> |

## Cumulative claims frequency

The Company determined that the disclosure of claim frequency analysis was impracticable. As a result, no claims frequency information has been disclosed. The Company's business is primarily comprised of reinsurance contracts written on a quota share or aggregate loss basis and the underlying claim count information is not provided for most contracts. Furthermore, even if claim counts were made available by the Company's cedents, the quota share cession percentage varies for each contract, resulting in the cedent claim counts not being a meaningful measure of the Company's loss exposure.

## Claims duration

The following table is presented as supplementary information and presents the Company's historical average annual percentage payout of loss and loss adjustment expenses incurred, net by age, as of December 31, 2017:

|                                                         | Year 1      | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 |
|---------------------------------------------------------|-------------|--------|--------|--------|--------|--------|
|                                                         | (Unaudited) |        |        |        |        |        |
| Prospective reinsurance contracts                       |             |        |        |        |        |        |
| Property                                                | 50.2%       | 32.8%  | 8.1%   | 5.1 %  | 1.3%   | 0.5 %  |
| Workers' Compensation                                   | 8.0%        | 20.6%  | 25.5%  | 17.4 % | 12.2%  | (3.0)% |
| Auto                                                    | 46.4%       | 44.3%  | 7.4%   | 1.2 %  | 0.5%   | (0.6)% |
| Other Casualty                                          | 1.1%        | 9.0%   | 18.9%  | 17.0 % | n/a    | n/a    |
| Credit & Financial Lines                                | 5.6%        | 18.0%  | 28.8%  | 10.6 % | 3.9%   | n/a    |
| Multi-line                                              | 23.6%       | 30.1%  | 34.0%  | (0.7)% | —%     | n/a    |
| Other Specialty                                         | 1.8%        | 93.7%  | 3.5%   | — %    | —%     | 0.1 %  |
| Retroactive reinsurance contracts                       |             |        |        |        |        |        |
| Contracts incepting in the year ended December 31, 2012 | n/a         | n/a    | n/a    | n/a    | n/a    | n/a    |
| Contracts incepting in the year ended December 31, 2013 | 4.3%        | 23.5%  | 31.2%  | 4.6 %  | 3.4%   | n/a    |
| Contracts incepting in the year ended December 31, 2014 | —%          | —%     | —%     | — %    | n/a    | n/a    |
| Contracts incepting in the year ended December 31, 2015 | —%          | —%     | —%     | n/a    | n/a    | n/a    |
| Contracts incepting in the year ended December 31, 2016 | n/a         | n/a    | n/a    | n/a    | n/a    | n/a    |
| Contracts incepting in the year ended December 31, 2017 | —%          | n/a    | n/a    | n/a    | n/a    | n/a    |

The Company was incorporated on October 6, 2011, commenced underwriting operations in January 2012 and predominantly writes a mix of personal and commercial lines. As a result, the Company has limited historical data and is unable to present a full cycle of claim payments.

## 9. Management, performance and founders fees

Third Point Re, Third Point Re BDA, TPRUSA and Third Point Re USA are parties 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 to related party during the period, unless funds are redeemed from the Joint Venture accounts, in which case, the proportionate share of performance fee, as described in Note 17, associated with the redemption is earned and allocated to noncontrolling interests in related party. At the end of each year, the remaining portion of the performance fee payable that has not been included in noncontrolling interests in related party through redemptions is earned and 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 that 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.

Additionally, Third Point LLC is entitled to receive management fees, which are paid monthly. Pursuant to the Investment Agreements, a total management fee of 1.5%, (2.0% up to December 22, 2016), of net investments managed by Third Point LLC was paid to Third Point LLC and certain founding investors.

For the years ended December 31, 2017, 2016 and 2015, management and performance fees to related parties are as follows:

|                                                                        | 2017              | 2016             | 2015             |
|------------------------------------------------------------------------|-------------------|------------------|------------------|
|                                                                        | (\$ in thousands) |                  |                  |
| Management fees - Third Point LLC                                      | \$ 36,733         | \$ 7,110         | \$ 6,362         |
| Management fees - Founders <sup>(1)</sup>                              | —                 | 35,321           | 36,053           |
| Performance fees - Third Point Advisors LLC (before loss carryforward) | 93,978            | 17,276           | 7,061            |
| Performance fees - loss carryforward                                   | —                 | —                | (6,199)          |
|                                                                        | <u>\$ 130,711</u> | <u>\$ 59,707</u> | <u>\$ 43,277</u> |

(1) KEP TP Bermuda Ltd., KIA TP Bermuda Ltd., Pine Brook LVR, L.P., P RE Opportunities Ltd. and Dowling Capital Partners I, L.P., collectively the “Founders”, received a share of the management fees in proportion to their initial investments in Third Point Re until December 22, 2016.

As of December 31, 2017, \$94.0 million (December 31, 2016 - \$17.3 million) related to performance fees earned by TP GP were included in noncontrolling interests in related party. See Note 17 for additional information.

## 10. Deposit accounted contracts

The following table represents activity in the deposit contracts for the years ended December 31, 2017, 2016 and 2015:

|                                            | 2017              | 2016              | 2015             |
|--------------------------------------------|-------------------|-------------------|------------------|
|                                            | (\$ in thousands) |                   |                  |
| Balance, beginning of year                 | \$ 104,905        | \$ 83,955         | \$ 145,430       |
| Consideration received                     | 22,658            | 22,463            | 21,246           |
| Consideration receivable                   | 2,080             | —                 | —                |
| Net investment expense (income) allocation | 2,800             | (164)             | 2,207            |
| Payments                                   | (3,545)           | (915)             | (84,928)         |
| Foreign currency translation               | 235               | (434)             | —                |
| Balance, end of year                       | <u>\$ 129,133</u> | <u>\$ 104,905</u> | <u>\$ 83,955</u> |

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

### Senior Notes payable

As of December 31, 2017, 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 Re, 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 December 31, 2017, the Company had capitalized \$1.3 million of costs associated with the Notes, which are presented as a direct deduction from the principal amount of the Notes on the consolidated balance sheets. As of December 31, 2017, the Notes had an estimated fair value of \$116.7 million (December 31, 2016 - \$103.4 million). The fair value measurements were based on observable inputs and therefore were considered to be Level 2. The Company was in compliance with all debt covenants as of December 31, 2017 and 2016.

## Letters of credit

As of December 31, 2017, the Company had entered into the following letter of credit facilities:

| December 31, 2017 | Facility (1)      | Utilized          | Collateral        |
|-------------------|-------------------|-------------------|-------------------|
|                   |                   | (\$ in thousands) |                   |
| Citibank          | 300,000           | 163,262           | 163,262           |
| Lloyds Bank       | 125,000           | 87,225            | 87,225            |
|                   | <u>\$ 425,000</u> | <u>\$ 250,487</u> | <u>\$ 250,487</u> |

(1) During the year ended December 31, 2017, the BNP Paribas facility of \$50.0 million with Third Point Re USA and the J.P. Morgan facility of and \$50.0 million with Third Point Re BDA were not renewed.

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 years ended December 31, 2017, 2016 and 2015 consisted of the following:

|                                                                                 | 2017                     | 2016             | 2015               |
|---------------------------------------------------------------------------------|--------------------------|------------------|--------------------|
| <b>Net investment income (loss) by type</b>                                     | <b>(\$ in thousands)</b> |                  |                    |
| Net realized gains on investments and investment derivatives                    | \$ 225,016               | \$ 33,505        | \$ 14,398          |
| Net unrealized gains (losses) on investments and investment derivatives         | 255,194                  | 70,290           | (34,181)           |
| Net gains (losses) on foreign currencies                                        | 6,441                    | (2,557)          | 933                |
| Dividend and interest income                                                    | 65,896                   | 77,160           | 45,103             |
| Dividends paid on securities sold, not yet purchased                            | (5,724)                  | (1,977)          | (1,279)            |
| Other expenses                                                                  | (24,073)                 | (19,422)         | (11,305)           |
| Net gain (loss) on investment in Kiskadee Fund                                  | (86)                     | 1,533            | 1,465              |
| Net investment income related to Catastrophe Reinsurer and Catastrophe Fund     | —                        | —                | 69                 |
| Net investment income before management and performance fees to related parties | 522,664                  | 158,532          | 15,203             |
| Management and performance fees to related parties                              | (130,711)                | (59,707)         | (43,277)           |
| Net investment income (loss)                                                    | <u>\$ 391,953</u>        | <u>\$ 98,825</u> | <u>\$ (28,074)</u> |



The following table provides an additional breakdown of our net investment income (loss) by asset and liability type for the years ended December 31, 2017, 2016 and 2015 consisted of the following:

|                                                                                                                                | 2017                     | 2016      | 2015        |
|--------------------------------------------------------------------------------------------------------------------------------|--------------------------|-----------|-------------|
| <b>Net investment income (loss) by asset type</b>                                                                              | <b>(\$ in thousands)</b> |           |             |
| Equity securities                                                                                                              | \$ 467,527               | \$ 78,955 | \$ (37,689) |
| Private common equity securities                                                                                               | (6)                      | 333       | (3,511)     |
| Private preferred equity securities                                                                                            | 5,764                    | 4,146     | 5,187       |
| Total equities                                                                                                                 | 473,285                  | 83,434    | (36,013)    |
| Asset-backed securities                                                                                                        | 12,571                   | 1,166     | 61,730      |
| Bank debt                                                                                                                      | 8,868                    | 6,887     | 184         |
| Corporate bonds                                                                                                                | 6,462                    | 115,568   | (45,590)    |
| Municipal bonds                                                                                                                | —                        | —         | (139)       |
| U.S. Treasury securities                                                                                                       | 2,366                    | 2,605     | (1,876)     |
| Sovereign debt                                                                                                                 | 21,553                   | 8,267     | 21,142      |
| Other debt securities                                                                                                          | 2,546                    | —         | —           |
| Total debt securities                                                                                                          | 54,366                   | 134,493   | 35,451      |
| Options                                                                                                                        | (33,510)                 | (28,426)  | (29,062)    |
| Rights and warrants                                                                                                            | 169                      | (370)     | (1,679)     |
| Real estate                                                                                                                    | 502                      | —         | —           |
| Trade claims                                                                                                                   | (89)                     | 116       | 249         |
| Total other investments                                                                                                        | (32,928)                 | (28,680)  | (30,492)    |
| Net investment income in funds valued at NAV                                                                                   | 10,309                   | 1,330     | (5,424)     |
| Total net investment income from invested assets                                                                               | 505,032                  | 190,577   | (36,478)    |
| <b>Net investment income (loss) by liability type</b>                                                                          |                          |           |             |
| Equity securities                                                                                                              | (35,643)                 | (11,725)  | (4,098)     |
| Sovereign debt                                                                                                                 | —                        | (382)     | 1,967       |
| Corporate bonds                                                                                                                | (1,725)                  | (4,195)   | 9,806       |
| Options                                                                                                                        | (2,907)                  | 11,272    | 25,411      |
| Total net investment income (loss) from securities sold, not yet purchased                                                     | (40,275)                 | (5,030)   | 33,086      |
| <b>Other investment income (losses) and other expenses not presented above</b>                                                 |                          |           |             |
| Other investment expenses                                                                                                      | (5,103)                  | (6,068)   | (5,486)     |
| Net investment income (loss) on derivative contracts                                                                           | 61,978                   | (15,479)  | 21,437      |
| Net investment income (loss) on cash, including foreign exchange gain (loss)                                                   | (1,454)                  | (10,173)  | 120         |
| Net investment losses on securities purchased under an agreement to sell and securities sold under and agreement to repurchase | (87)                     | (1,970)   | (2,373)     |
| Withholding taxes reclassified to income tax expense                                                                           | 2,573                    | 6,675     | 4,828       |
| Net investment income related to Catastrophe Reinsurer and Catastrophe Fund                                                    | —                        | —         | 69          |
| Total other investment income (losses) and other expenses                                                                      | 57,907                   | (27,015)  | 18,595      |
| Net investment income before management and performance fees to related parties                                                | 522,664                  | 158,532   | 15,203      |
| Management and performance fees to related parties                                                                             | (130,711)                | (59,707)  | (43,277)    |
| Net investment income (loss)                                                                                                   | \$ 391,953               | \$ 98,825 | \$ (28,074) |

### 13. Other expenses

Other expenses for the years ended December 31, 2017, 2016 and 2015 consisted of the following:

|                                                                                                     | 2017              | 2016            | 2015            |
|-----------------------------------------------------------------------------------------------------|-------------------|-----------------|-----------------|
|                                                                                                     | (\$ in thousands) |                 |                 |
| Investment expense (income) and change in fair value of embedded derivatives in deposit liabilities | \$ 2,800          | \$ (164)        | \$ 2,207        |
| Investment expense and change in fair value of embedded derivatives in reinsurance contracts        | 9,874             | 8,551           | 6,407           |
|                                                                                                     | <u>\$ 12,674</u>  | <u>\$ 8,387</u> | <u>\$ 8,614</u> |

### 14. Income taxes

The Company provides for income tax expense or benefit based upon pre-tax income or loss reported in the consolidated statements of income (loss) 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. 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. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (3) creating the base erosion anti-abuse tax (BEAT), a new minimum tax; (4) creating a new limitation on deductible interest expense; and (5) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

As a result of the change in the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018, the Company has recorded a decrease related to deferred tax assets and deferred tax liabilities of \$6.0 million and \$6.8 million, respectively, with a corresponding net adjustment decreasing deferred income tax expense by \$0.8 million for the year ended December 31, 2017. Although the Company believes that it has accounted for the most significant tax effects of the Tax Act, there may be further changes that could impact the Company's calculations of certain deferred tax amounts. For example, the Company has not fully incorporated the revisions to the discounting rules for loss reserves into its calculation of this deferred tax asset. The Company does not anticipate material changes to its effective tax rate as a result of the other changes included in the Tax Act.

The Company also has subsidiaries in the United Kingdom, TPRUK and Third Point Re UK, 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 December 31, 2017, the Company has accrued \$1.9 million (December 31, 2016 - \$1.6 million) for uncertain tax positions.

For the years ended December 31, 2017, 2016 and 2015, the Company recorded income tax expense (benefit), as follows:

|                                                                    | 2017              | 2016            | 2015              |
|--------------------------------------------------------------------|-------------------|-----------------|-------------------|
|                                                                    | (\$ in thousands) |                 |                   |
| Income tax expense (benefit) related to U.S. and U.K. subsidiaries | \$ 9,248          | \$ (1,232)      | \$ (6,633)        |
| Change in uncertain tax positions                                  | 155               | 147             | (1,100)           |
| Withholding taxes on certain investment transactions               | 2,573             | 6,678           | 4,828             |
|                                                                    | <u>\$ 11,976</u>  | <u>\$ 5,593</u> | <u>\$ (2,905)</u> |

The following is a summary of the Company's income (loss) before income tax expense (benefit) by jurisdiction for the years ended December 31, 2017, 2016 and 2015:

|                                                   | 2017              | 2016             | 2015               |
|---------------------------------------------------|-------------------|------------------|--------------------|
|                                                   | (\$ in thousands) |                  |                    |
| Bermuda                                           | \$ 266,497        | \$ 38,243        | \$ (71,416)        |
| United States                                     | 27,172            | (3,687)          | (18,981)           |
| United Kingdom                                    | 78                | (87)             | 53                 |
| Income (loss) before income tax expense (benefit) | <u>\$ 293,747</u> | <u>\$ 34,469</u> | <u>\$ (90,344)</u> |

The Company's expected income tax provision computed on pre-tax income at the weighted average tax rate has been calculated as the sum of the pre-tax income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. Statutory tax rates of 0.0%, 35.0% and 19.25% have been used for Bermuda, the United States and the United Kingdom, respectively. As of December 31, 2017, the Company has income tax returns open for examination in the United States for the tax years 2015 and 2016.

The following table presents a reconciliation of expected income taxes to income tax expense (benefit) for the years ended December 31, 2017, 2016 and 2015:

|                                                      | 2017              | 2016            | 2015              |
|------------------------------------------------------|-------------------|-----------------|-------------------|
|                                                      | (\$ in thousands) |                 |                   |
| Bermuda (expected tax expense at 0%)                 | \$ —              | \$ —            | \$ —              |
| Foreign taxes at local expected rates:               |                   |                 |                   |
| United States                                        | 9,510             | (1,290)         | (6,644)           |
| United Kingdom                                       | 15                | (17)            | 11                |
| Withholding taxes on certain investment transactions | 2,573             | 6,678           | 4,828             |
| Change in uncertain tax positions                    | 155               | 147             | (1,100)           |
| Non-deductible expenses and other                    | (277)             | 75              | —                 |
| Income tax expense (benefit)                         | <u>\$ 11,976</u>  | <u>\$ 5,593</u> | <u>\$ (2,905)</u> |

The following table presents the Company's current and deferred incomes taxes for the years ended December 31, 2017, 2016 and 2015:

|                                | 2017              | 2016            | 2015              |
|--------------------------------|-------------------|-----------------|-------------------|
|                                | (\$ in thousands) |                 |                   |
| Current tax expense            | \$ 2,824          | \$ 6,825        | \$ 3,728          |
| Deferred tax expense (benefit) | 9,152             | (1,232)         | (6,633)           |
| Income tax expense (benefit)   | <u>\$ 11,976</u>  | <u>\$ 5,593</u> | <u>\$ (2,905)</u> |

The following table presents the tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities as of December 31, 2017, 2016 and 2015:

|                                                          | 2017              | 2016     | 2015     |
|----------------------------------------------------------|-------------------|----------|----------|
|                                                          | (\$ in thousands) |          |          |
| Deferred tax assets:                                     |                   |          |          |
| Discounting of loss and loss adjustment expense reserves | \$ 330            | \$ 451   | \$ 119   |
| Unearned premiums                                        | 1,634             | 2,486    | 2,329    |
| Temporary differences in recognition of expenses         | 138               | 1,134    | 573      |
| Net operating and capital loss carryforwards             | 7,048             | 13,326   | 7,839    |
| Total deferred tax assets                                | 9,150             | 17,397   | 10,860   |
| Deferred tax liabilities:                                |                   |          |          |
| Deferred acquisition costs                               | 7,798             | 4,079    | 3,515    |
| Unrealized gains on investments                          | 2,435             | 5,438    | 712      |
| Total deferred tax liabilities                           | 10,233            | 9,517    | 4,227    |
| Net deferred tax asset (liability)                       | \$ (1,083)        | \$ 7,880 | \$ 6,633 |

The deferred tax assets and liabilities as of December 31, 2017 were primarily related to U.S. income tax. To evaluate the recoverability of the deferred tax assets, the Company considers the timing of the reversal of deferred income and expense items as well as the likelihood that the Company will generate sufficient taxable income to realize future tax benefits. The Company believes that it is more likely than not that it will generate sufficient taxable income and realize the future tax benefits in order to recover the deferred assets and, accordingly, no valuation allowance was recorded as of December 31, 2017 and 2016. As of December 31, 2017, deferred tax assets include \$26.1 million net operating loss related to the Company's U.S. subsidiaries that can be carried forward for twenty years and part of which will begin to expire in 2035.

## 15. Share capital

The following tables are a summary of the common shares issued and outstanding and shares repurchased held as treasury shares as of and for the years ended December 31, 2017 and 2016:

| <b>Common shares</b>                                      | <b>2017</b> | <b>2016</b> |
|-----------------------------------------------------------|-------------|-------------|
| Common shares issued, beginning of year                   | 106,501,299 | 105,479,341 |
| Options exercised                                         | 150,802     | 514,059     |
| Restricted shares granted, net of forfeitures             | (35,011)    | 47,712      |
| Performance restricted shares granted, net of forfeitures | 610,257     | 460,187     |
| Common shares issued, end of year                         | 107,227,347 | 106,501,299 |
| Treasury shares, end of year                              | (3,944,920) | (644,768)   |
| Common shares outstanding, end of year                    | 103,282,427 | 105,856,531 |

## 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. No preference shares have been issued to date.

## Share repurchases

On May 4, 2016, the Company's Board of Directors authorized a 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.

During the year ended December 31, 2017, the Company repurchased 3,300,152 (December 31, 2016 - 644,768) of its common shares in the open market for an aggregate cost of \$40.9 million (December 31, 2016 - \$7.4 million) at a weighted average cost, including commissions, of \$12.38 (December 31, 2016 - \$11.46) per share. Common shares repurchased by the Company were not canceled and are classified as treasury shares.

As of December 31, 2017, the Company is authorized to repurchase up to an aggregate of \$51.7 million of additional common shares under its share repurchase program.

## Warrants

The Company's Founders and an advisor provided insurance industry expertise, resources and relationships to ensure that the Company would be fully operational with key management in place in time for the January 2012 underwriting season. In consideration of these commitments, the Company reserved for issuance to the Founders and an advisor warrants to purchase, in the aggregate, up to 4.0% (Founders 3.5% and an advisor 0.5%) of the diluted shares (up to a maximum of \$1 billion of subscribed shares) provided that the Founders and the advisor will not be issued any warrants for common shares issued in consideration for any capital raised by the Company in excess of \$1 billion. The following is a summary of warrants as of December 31, 2017:

|          | Exercise price                                            | Authorized and issued | Aggregated fair value of warrants |
|----------|-----------------------------------------------------------|-----------------------|-----------------------------------|
|          | (\$ in thousands, except for share and per share amounts) |                       |                                   |
| Founders | \$ 10.00                                                  | 4,069,868             | \$ 15,203                         |
| Advisor  | \$ 10.00                                                  | 581,295               | 2,171                             |
|          |                                                           | 4,651,163             | \$ 17,374                         |

The warrants expire 10 years from the date of issuance, December 22, 2011, and will be exercisable at a price per share of \$10.00, which is equal to the price per share paid by investors in the initial private offering.

## 16. Share-based compensation

On July 15, 2013, the Third Point Re 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 Re 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.

As of December 31, 2017, 9,330,000 (December 31, 2016 - 9,418,538) of the Company's common shares were available for future issuance under the equity incentive compensation plans.

The following table provides the total share-based compensation expense included in general and administrative expenses during the years ended December 31, 2017, 2016 and 2015:

|                                                          | 2017              | 2016     | 2015      |
|----------------------------------------------------------|-------------------|----------|-----------|
|                                                          | (\$ in thousands) |          |           |
| Management and director options                          | \$ 648            | \$ 6,054 | \$ 6,264  |
| Restricted shares with service condition <sup>(1)</sup>  | (331)             | 1,365    | 1,953     |
| Restricted shares with service and performance condition | 3,282             | 1,519    | 2,654     |
|                                                          | \$ 3,599          | \$ 8,938 | \$ 10,871 |

(1) Net of forfeitures of \$0.9 million in the year ended December 31, 2017 (December 31, 2016 - \$nil and December 31, 2015 - \$0.7m)

As of December 31, 2017, the Company had \$5.8 million (December 31, 2016 - \$4.6 million) of unamortized share compensation expense, which is expected to be amortized over a weighted average period of 1.5 years (December 31, 2016 - 1.4 years).

### ***Management and director options***

The management options issued under the Share Incentive Plan were subject to a service and performance condition. The service condition will be met with respect to 20% of the management options on each of the first five anniversary dates following the grant date of the management options. The performance condition with respect to the management options was met as a result of the Company's IPO.

The management and director options activity for the years ended December 31, 2017, 2016 and 2015 were as follows:

|                                  | Number of<br>options | Weighted<br>average exercise<br>price |
|----------------------------------|----------------------|---------------------------------------|
| Balances as of January 1, 2015   | 10,990,841           | \$ 13.41                              |
| Forfeited                        | (306,976)            | 14.36                                 |
| Exercised                        | (433,279)            | 10.00                                 |
| Balances as of January 1, 2016   | 10,250,586           | 13.52                                 |
| Forfeited                        | (139,534)            | 18.00                                 |
| Exercised                        | (514,059)            | 10.00                                 |
| Balances as of January 1, 2017   | 9,596,993            | 13.64                                 |
| Forfeited                        | (558,138)            | 18.00                                 |
| Exercised                        | (150,802)            | 10.00                                 |
| Balances as of December 31, 2017 | <u>8,888,053</u>     | <u>\$ 13.43</u>                       |

The fair value of share options issued were estimated on the grant date using the Black-Scholes option-pricing model. There were no share options granted in the years ended December 31, 2017 and 2016. As of December 31, 2017, the weighted average remaining contractual term for options outstanding and exercisable was 4.2 years and 4.1 years, respectively (2016 - 4.9 years and 4.8 years, respectively).

The following table summarizes information about the Company's management and director share options outstanding as of December 31, 2017:

| Range of exercise prices | Options outstanding  |                                       |                                  | Options exercisable  |                                       |
|--------------------------|----------------------|---------------------------------------|----------------------------------|----------------------|---------------------------------------|
|                          | Number of<br>options | Weighted<br>average<br>exercise price | Remaining<br>contractual<br>life | Number of<br>options | Weighted<br>average<br>exercise price |
| \$10.00 - \$10.89        | 5,123,532            | \$ 10.04                              | 4.1 years                        | 5,081,671            | \$ 10.03                              |
| \$15.05 - \$16.89        | 1,917,145            | \$ 15.93                              | 4.3 years                        | 1,861,332            | \$ 15.94                              |
| \$20.00 - \$25.05        | 1,847,376            | \$ 20.26                              | 4.2 years                        | 1,805,518            | \$ 20.22                              |
|                          | <u>8,888,053</u>     | <u>\$ 13.43</u>                       | <u>4.2 years</u>                 | <u>8,748,521</u>     | <u>\$ 13.39</u>                       |

The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2017 was \$23.6 million and \$23.4 million, respectively (2016 - \$8.0 million and \$7.1 million, respectively). For the year ended December 31, 2017, the Company received proceeds of \$1.5 million (2016 - \$5.1 million) from the exercise of options.

### ***Restricted shares with service condition***

Restricted shares 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.

Restricted share award activity for the restricted shares with only a service condition for the years ended December 31, 2017, 2016 and 2015 was as follows:

|                                 | Number of non-vested restricted shares | Weighted average grant date fair value |
|---------------------------------|----------------------------------------|----------------------------------------|
| Balance as of January 1, 2015   | 616,114                                | \$ 10.10                               |
| Granted                         | 118,120                                | 13.06                                  |
| Forfeited                       | (7,267)                                | 13.76                                  |
| Vested                          | (425,924)                              | 10.37                                  |
| Balance as of January 1, 2016   | 301,043                                | 11.12                                  |
| Granted                         | 47,712                                 | 11.37                                  |
| Vested                          | (47,712)                               | 11.37                                  |
| Balance as of January 1, 2017   | 301,043                                | 11.12                                  |
| Granted                         | 36,418                                 | 12.15                                  |
| Forfeited                       | (71,429)                               | 14.00                                  |
| Vested                          | (247,823)                              | 10.36                                  |
| Balance as of December 31, 2017 | 18,209                                 | \$ 12.15                               |

For the year ended December 31, 2017, the Company issued 36,418 (2016 - 47,712 and 2015 - 46,691) to directors and no (2016 - nil and 2015 - 71,429) restricted shares to employees. The restricted shares issued to employees in 2015 had an original vesting period of three years from the date of issuance, however, as a result of the grantee's departure from the Company, these shares were forfeited in the year ended December 31, 2017. The restricted shares issued to directors in 2017 vest quarterly on July 31, 2017, October 31, 2017, January 31, 2018 and April 30, 2018. The restricted shares issued in 2016 and 2015 to directors vested on December 31, 2016 and 2015, respectively.

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

Beginning in December 2014, the Company granted on an annual basis performance-based restricted shares to certain employees pursuant to the Omnibus Plan. Performance-based restricted shares vest based on continued service and the achievement of certain financial performance measures over a three-year measurement period. The number of performance-based restricted shares that will be retained upon vesting will vary based on the level of achievement of the performance goals. The formula for determining the amount of shares that will vest is based on underwriting performance of the property and casualty reinsurance segment including underwriting income and the amount of float generated, as defined in the relevant award agreements.

Restricted share award activity for the restricted shares with a service and performance condition for the years ended December 31, 2017, 2016 and 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 | n/a                                    | (78,128)                                                   | 14.60                                  |
| Balance as of January 1, 2016                                        | 921,553                                | 536,234                                                    | 14.24                                  |
| Granted                                                              | 653,958                                | 435,974                                                    | 11.40                                  |
| Forfeited                                                            | (193,771)                              | (119,009)                                                  | 13.16                                  |
| Change in estimated restricted shares considered probable of vesting | n/a                                    | (275,713)                                                  | 13.06                                  |
| Balance as of January 1, 2017                                        | 1,381,740                              | 577,486                                                    | 12.91                                  |
| Granted                                                              | 935,825                                | 623,882                                                    | 12.66                                  |
| Forfeited                                                            | (325,568)                              | (45,617)                                                   | 12.57                                  |
| Vested                                                               | (136,618)                              | (136,618)                                                  | 14.60                                  |
| Change in estimated restricted shares considered probable of vesting | n/a                                    | (131,930)                                                  | 12.17                                  |
| Balance as of December 31, 2017                                      | 1,855,379                              | 887,203                                                    | \$ 12.60                               |

#### ***Defined contribution retirement plans***

The Company's employees are eligible for retirement benefits through defined contribution retirement plans. The Company and employees contribute an amount equal to a specified percentage of each employee's salary. Expenses related to the defined contribution plans were \$0.8 million for each of the years ended December 31, 2017, 2016 and 2015.

#### **17. Noncontrolling interests in related party**

Noncontrolling interests in related party represents the portion of equity in consolidated subsidiaries not attributable, directly or indirectly, to the Company.

Income (loss) attributable to noncontrolling interests in related party for the years ended December 31, 2017, 2016 and 2015 was:

|                                                | 2017              | 2016            | 2015           |
|------------------------------------------------|-------------------|-----------------|----------------|
|                                                | (\$ in thousands) |                 |                |
| Catastrophe Fund and Catastrophe Fund Manager  | \$ —              | \$ —            | \$ (102)       |
| Joint Venture - Third Point Advisors LLC share | 3,973             | 1,241           | 53             |
|                                                | <u>\$ 3,973</u>   | <u>\$ 1,241</u> | <u>\$ (49)</u> |

#### ***Third Point Reinsurance Opportunities Fund Ltd. and Third Point Re Cat Ltd.***

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.

For the year ended December 31, 2015, the Catastrophe Fund distributed \$119.4 million (Third Point Re BDA's share - \$59.4 million) resulting in a distribution of noncontrolling interests for the Catastrophe Fund of \$60.0 million for the year ended December 31, 2015.



## Investment in Joint Ventures

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 redeemable noncontrolling interests in related party and noncontrolling interests in related party in the consolidated balance sheets.

A portion of the noncontrolling interest in investment affiliates is subject to contractual withdrawal rights of TP GP, whereas TP GP, at its sole discretion, can withdraw the capital over the minimum capital required to be maintained in its capital accounts. This excess capital is therefore recorded on the Company's consolidated balance sheets as redeemable noncontrolling interest in related party whereas the required minimum capital is recorded as noncontrolling interests in related party within shareholders' equity on the Company's consolidated balance sheet since it does not have withdrawal rights.

The following table is a reconciliation of the beginning and ending carrying amounts of redeemable noncontrolling interests in related party, noncontrolling interests in related party and total noncontrolling interests in related party for the years ended December 31, 2017 and 2016 (See Note 2 for additional information on changes in the presentation of noncontrolling interests):

|                                          | Redeemable noncontrolling<br>interests in related party |             | Noncontrolling interests in<br>related party |                  | Total noncontrolling interests<br>in related party |                  |
|------------------------------------------|---------------------------------------------------------|-------------|----------------------------------------------|------------------|----------------------------------------------------|------------------|
|                                          | 2017                                                    | 2016        | 2017                                         | 2016             | 2017                                               | 2016             |
|                                          | (\$ in thousands)                                       |             |                                              |                  |                                                    |                  |
| Balance, beginning of period             | \$ —                                                    | \$ —        | \$ 35,674                                    | \$ 16,157        | \$ 35,674                                          | \$ 16,157        |
| Changes in capital account<br>allocation | 108,219                                                 | —           | (30,267)                                     | 19,517           | 77,952                                             | 19,517           |
| Balance, end of period                   | <u>\$ 108,219</u>                                       | <u>\$ —</u> | <u>\$ 5,407</u>                              | <u>\$ 35,674</u> | <u>\$ 113,626</u>                                  | <u>\$ 35,674</u> |

In addition, the following table is a reconciliation of beginning and ending carrying amount of total noncontrolling interests in related party resulting from the consolidation of the Company's joint venture in Third Point Re BDA and Third Point Re USA:

|                                                                                  | Third Point Re BDA |                  | Third Point Re USA |                 | Total             |                  |
|----------------------------------------------------------------------------------|--------------------|------------------|--------------------|-----------------|-------------------|------------------|
|                                                                                  | 2017               | 2016             | 2017               | 2016            | 2017              | 2016             |
|                                                                                  | (\$ in thousands)  |                  |                    |                 |                   |                  |
| Balance, beginning of period                                                     | \$ 30,358          | \$ 14,152        | \$ 5,316           | \$ 2,005        | \$ 35,674         | \$ 16,157        |
| Net income attributable to<br>total noncontrolling interests<br>in related party | 3,167              | 1,073            | 806                | 168             | 3,973             | 1,241            |
| Contributions <sup>(1)</sup>                                                     | 82,093             | 15,133           | 11,885             | 3,143           | 93,978            | 18,276           |
| Redemptions                                                                      | (17,999)           | —                | (2,000)            | —               | (19,999)          | —                |
| Balance, end of period                                                           | <u>\$ 97,619</u>   | <u>\$ 30,358</u> | <u>\$ 16,007</u>   | <u>\$ 5,316</u> | <u>\$ 113,626</u> | <u>\$ 35,674</u> |

(1) Contributions include performance fees earned during the period. See Note 9 for additional information.

## Non-Consolidated variable interest entities

The Company invests in limited partnerships and other investment vehicles as part of its overall investment strategy. Some of these entities are affiliated with our investment manager, Third Point LLC. The activities of these variable interest entities are generally limited to holding investments and the Company's involvement in these entities is passive in nature. The Company does not have the power to direct the activities which most significantly impact the variable interest entities economic performance and therefore, the Company is not the primary beneficiary of these variable interest entities.

The following variable interest entities were not consolidated as per ASC 810:

### ***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 December 31, 2017, the Company held a 15.6% (December 31, 2016 - 13.8%) 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 NAV, as a practical expedient for fair value, in the consolidated balance sheets. The Company records changes in the fair value of this investment in the consolidated statements of income (loss).

As of December 31, 2017, the estimated fair value of the investment in the limited partnership was \$0.6 million (December 31, 2016 - \$37.6 million). The Company received net distributions of \$39.6 million from the Cayman HoldCo during the year ended December 31, 2017 due to the disposition of underlying investments (2016 - \$35.5 million net contributions). 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.

### ***Third Point Hellenic Recovery US Feeder Fund, L.P.***

The Company is a limited partner in Third Point Hellenic Recovery US Feeder Fund, L.P. (the “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.

The Company has committed to invest \$10.9 million (December 31, 2016 - \$10.6 million) in the Hellenic Fund. Capital distributions of \$1.5 million (2016 - \$0.2 million) were made during the year ended December 31, 2017.

As of December 31, 2017, the estimated fair value of the Company’s investment in the Hellenic Fund was \$4.9 million (December 31, 2016 - \$5.5 million), representing a 2.9% interest (December 31, 2016 - 2.8%). 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 NAV, as a practical expedient for fair value, in the consolidated balance sheets. The Company records changes in the fair value of this investment in the consolidated statements of income (loss).

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.

### ***TP DR Holdings LLC***

The Company holds an equity and debt investment in TP DR Holdings LLC (“TP DR”), which is an affiliate of the Investment Manager. In December 2016, TP DR was formed as a limited liability company under the laws of the Cayman Islands to invest and own 100% equity interest in DCA Holdings Six Ltd. and its wholly owned subsidiary group. TP DR’s principal objective is to own, develop and manage properties in the Dominican Republic.

The Company invests in TP DR alongside other investment funds managed by the Investment Manager and third-party investors. As of December 31, 2017, the Company held a 7.0% equity (December 31, 2016 - 7.2%) and 13.1% debt (December 31, 2016 - 13.7%) interest in TP DR. The Company accounts for its equity investment in TP DR under the variable interest model, in which the Company is not the primary beneficiary, at NAV, as a practical expedient for fair value, in the consolidated balance sheets. The Company records changes in the fair value of this investment in the consolidated statements of income (loss).

As of December 31, 2017, the estimated fair value of the investment was \$12.7 million (December 31, 2016 - \$9.5 million), corresponding to \$3.7 million of equity (December 31, 2016 - \$0.9 million) and \$9.0 million of debt interest (December 31, 2016 - \$8.6 million). During the year ended December 31, 2017, the Company contributed securities worth \$nil and cash of \$2.4 million to TP DR (December 31, 2016 - securities worth \$7.2 million and cash of \$1.9 million). The Company has no further commitments or guarantees with respect to TP DR. The valuation policy with respect to this investment in investment funds 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.

#### ***Cloudbreak II Cayman Ltd and TP Trading II LLC***

The Company holds an equity interest in Cloudbreak II Cayman Ltd, Cloudbreak II US LLC (collectively, the "Cloudbreak entities") and TP Trading II LLC which are affiliates of the Investment Manager. The Company invests in the Cloudbreak entities and TP Trading II LLC alongside other investment funds managed by the Investment Manager. These entities' are invested in a structure whose primary purpose is to purchase consumer loans for securitization and warrants from a marketplace lending platform.

As of December 31, 2017, the Cloudbreak entities held \$4.6 million of the Company's asset-backed security investments, which are included in investments in securities in the consolidated balance sheets. The Company's pro rata interest in the underlying investments is registered in the name of Cloudbreak II US LLC and the related income and expense are reflected in the consolidated balance sheets and the consolidated statements of income (loss).

As of December 31, 2017, the Company held a 9.3% interest in TP Trading II LLC. The Company accounts for its equity investment in TP Trading II LLC under the variable interest model, in which the Company is not the primary beneficiary, at NAV, as a practical expedient for fair value, in the consolidated balance sheets. The Company records changes in the fair value of this investment in the consolidated statements of income (loss). As of December 31, 2017, the estimated fair value of the investment was \$6.0 million. The valuation policy with respect to this investment is further described in Note 4. The Company's maximum exposure to loss as a result of its involvement with these investments are limited to the carrying value of the investments.

#### ***Ventures Entities***

The Company holds equity interests in Venture One Holdings LLC, Venture Three Holdings LLC, Venture Four Holdings LLC and Venture Five Holdings LLC (collectively, the "Ventures entities"), which are affiliates of the Investment Manager. The Company invests in the Ventures entities alongside other investment funds managed by the Investment Manager. The primary purpose of these entities is to make investments in direct commercial real estate and real estate debt.

The Company accounts for its equity interests in the Ventures entities under the variable interest model, in which the Company is not the primary beneficiary. As of December 31, 2017, the Ventures entities held \$7.5 million of the Company's real estate and other debt investments, which are included in investments in securities in the consolidated balance sheets. The Company records changes in the fair value of this investment in the consolidated statements of income (loss). The valuation policy with respect to this investment 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.

## 18. Earnings (loss) per share available to Third Point Re common shareholders

The following sets forth the computation of basic and diluted earnings (loss) per share available to Third Point Re common shareholders for the years ended December 31, 2017, 2016 and 2015:

|                                                                                   | 2017                                                  | 2016        | 2015        |
|-----------------------------------------------------------------------------------|-------------------------------------------------------|-------------|-------------|
| <b>Weighted-average number of common shares outstanding:</b>                      | (\$ in thousands, except share and per share amounts) |             |             |
| Basic number of common shares outstanding                                         | 102,264,094                                           | 104,060,052 | 104,003,820 |
| Dilutive effect of options                                                        | 1,392,384                                             | 633,955     | —           |
| Dilutive effect of warrants                                                       | 1,270,957                                             | 709,499     | —           |
| Dilutive effect of restricted shares with service and performance condition       | 299,603                                               | 160,278     | —           |
| Diluted number of common shares outstanding                                       | 105,227,038                                           | 105,563,784 | 104,003,820 |
| <b>Basic earnings (loss) per common share:</b>                                    |                                                       |             |             |
| Net income (loss) available to Third Point Re common shareholders                 | \$ 277,798                                            | \$ 27,635   | \$ (87,390) |
| Net income allocated to Third Point Re participating common shareholders          | (263)                                                 | (88)        | —           |
| Net income (loss) allocated to Third Point Re common shareholders                 | \$ 277,535                                            | \$ 27,547   | \$ (87,390) |
| Basic earnings (loss) per share available to Third Point Re common shareholders   | \$ 2.71                                               | \$ 0.26     | \$ (0.84)   |
| <b>Diluted earnings (loss) per common share:</b>                                  |                                                       |             |             |
| Net income (loss) available to Third Point Re common shareholders                 | \$ 277,798                                            | \$ 27,635   | \$ (87,390) |
| Net income allocated to Third Point Re participating common shareholders          | (256)                                                 | (87)        | —           |
| Net income (loss) allocated to Third Point Re common shareholders                 | \$ 277,542                                            | \$ 27,548   | \$ (87,390) |
| Diluted earnings (loss) per share available to Third Point Re common shareholders | \$ 2.64                                               | \$ 0.26     | \$ (0.84)   |

For the years ended December 31, 2017 and 2016, anti-dilutive options of 4,056,588 and 4,369,171, respectively, were excluded from the computation of diluted earnings per share. For the year ended December 31, 2015, anti-dilutive options and restricted shares with service and performance condition of 4,859,053 were excluded from the computation of diluted loss per share. In addition, as a result of the net loss for the year ended December 31, 2015, dilutive options and warrants totaling 10,669,545 were 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 transactions

In addition to the transactions disclosed in Notes 4, 9 and 17 to these consolidated financial statements, the following transaction is classified as a related party transaction, as the counterparties have 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” and, together with Loan LLC, “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 December 31, 2017, Loan LLC held \$99.6 million (December 31, 2016 - \$124.1 million) and Ventures LLC held \$6.3 million (December 31, 2016 - \$22.6 million) of the Company’s investments, which are included in investments in securities and derivative contracts in the 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 consolidated balance sheets and the consolidated statements of income (loss). The valuation policy, with respect to investments held by the nominees, is further discussed in Note 4.

## **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 consolidated balance sheets.

Securities sold, not yet purchased are recorded as liabilities in the 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 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 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 December 31, 2017, the investment portfolio had a maximum payout amount of approximately \$399.2 million (December 31, 2016 - \$87.5 million) relating to written put option contracts with expiration ranging from one month to seven 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 December 31, 2017 was \$3.5 million (December 31, 2016 - \$1.3 million) and is included in securities sold, not yet purchased in the 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

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.

The following table sets forth certain information related to the Company's written credit derivatives as of December 31, 2017 and 2016:

- (1) As of December 31, 2017 and 2016, 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.

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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 consolidated balance sheets. As of December 31, 2017, the Company's maximum counterparty credit risk exposure was \$76.4 million (December 31, 2016 - \$28.1 million).

### *Underwriting*

The Company is exposed to credit risk in several reinsurance contracts with companies that write credit risk insurance, which primarily consists of mortgage insurance credit risk. Loss experience in these lines of business is cyclical and is affected by the state of the general economic environment. The Company provides its clients in these lines of business with reinsurance protection against credit deterioration, defaults or other types of financial non-performance. The Company mitigates the risks associated with these credit-sensitive lines of business through the use of risk management techniques such as risk diversification and monitoring of risk aggregations.

The Company has exposure to credit risk as it relates to its business written through brokers, if any of the Company's brokers are unable to fulfill their contractual obligations with respect to payments to the Company. In addition, in some jurisdictions, if the broker fails to make payments to the insured under the Company's policy, the Company may remain liable to the insured for the deficiency. The Company's exposure to such credit risk is somewhat mitigated in certain jurisdictions by contractual terms.

The Company has exposure to credit risk related to balances receivable under our reinsurance contracts, including funds withheld and premiums receivable, and the possibility that counterparties may default on their obligations to the Company. The risk of counterparty default is partially mitigated by the fact that any amount owed from a reinsurance counterparty would be netted against any losses or acquisition costs the Company would pay in the future. The Company monitors the collectability of these balances on a regular basis.

## **21. Commitments and Contingencies**

### **Operating leases**

The Company leases offices space in Bermuda and in New Jersey, U.S.A. The leases have been accounted for as operating leases. Total rent expense for the year ended December 31, 2017 was \$0.8 million (2016 - \$0.8 million and 2015 - \$0.7 million).

Future minimum rental commitments as of December 31, 2017 under these leases are expected to be as follows:

|            | (\$ in thousands) |
|------------|-------------------|
| 2018       | \$ 871            |
| 2019       | 888               |
| 2020       | 850               |
| 2021       | 42                |
| 2022       | —                 |
| Thereafter | —                 |
|            | <u>\$ 2,651</u>   |

### **Agreements**

#### ***Third Point LLC***

In June 2016, Third Point Re, Third Point Re BDA, TPRUSA and Third Point Re USA entered into amended and restated Joint Venture and Investment Management Agreements with Third Point LLC and TP GP for an additional five year term, effective on December 22, 2016. These agreements have similar terms to the expired agreements, however, the management fee was reduced from 2% to 1.5%.

### ***NetJets***

In September 2016, the Company traded in its existing aircraft and acquired from NetJets Sales Inc. (“NetJets”) an undivided 31.25% interest in a new aircraft for a five year period. The agreement with NetJets provides for monthly management fees, occupied hourly fees and other fees.

Future minimum management fee commitments as of December 31, 2017 under the existing agreement are expected to be as follows:

|      | (\$ in thousands) |
|------|-------------------|
| 2018 | \$ 723            |
| 2019 | 750               |
| 2020 | 779               |
| 2021 | 538               |
| 2022 | —                 |
|      | <u>\$ 2,790</u>   |

### ***Employment agreements***

As of December 31, 2017, the Company has entered into employment agreements with certain of its executive officers. Such employment arrangements provide for compensation in the form of base salary, annual bonus, share-based awards, participation in the Company’s employee benefit programs and the reimbursements of expenses.

### **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 December 31, 2017, the Company had one unfunded capital commitment of \$3.2 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 consolidated statements of income (loss).

### **Financing**

In February 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 Re, 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 (losses) and income tax (expense) benefit. 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 Company does not manage its assets by segment; accordingly, total assets are not allocated to the segments.

The following is a summary of the Company's operating segment results for the years ended December 31, 2017, 2016 and 2015:

|                                                                      | Year Ended December 31, 2017      |                             |                   |                   |
|----------------------------------------------------------------------|-----------------------------------|-----------------------------|-------------------|-------------------|
|                                                                      | Property and Casualty Reinsurance | Catastrophe Risk Management | Corporate         | Total             |
|                                                                      | (\$ in thousands)                 |                             |                   |                   |
| <b>Revenues</b>                                                      |                                   |                             |                   |                   |
| Gross premiums written                                               | \$ 641,620                        | \$ —                        | \$ —              | \$ 641,620        |
| Gross premiums ceded                                                 | (2,475)                           | —                           | —                 | (2,475)           |
| Net premiums written                                                 | 639,145                           | —                           | —                 | 639,145           |
| Change in net unearned premium reserves                              | (92,087)                          | —                           | —                 | (92,087)          |
| Net premiums earned                                                  | 547,058                           | —                           | —                 | 547,058           |
| <b>Expenses</b>                                                      |                                   |                             |                   |                   |
| Loss and loss adjustment expenses incurred, net                      | 370,058                           | —                           | —                 | 370,058           |
| Acquisition costs, net                                               | 188,904                           | —                           | —                 | 188,904           |
| General and administrative expenses                                  | 30,656                            | —                           | 22,447            | 53,103            |
| Total expenses                                                       | 589,618                           | —                           | 22,447            | 612,065           |
| <b>Net underwriting loss</b>                                         | (42,560)                          | n/a                         | n/a               | n/a               |
| Net investment income                                                | 114,435                           | —                           | 277,518           | 391,953           |
| Other expenses                                                       | (12,674)                          | —                           | —                 | (12,674)          |
| Interest expense                                                     | —                                 | —                           | (8,225)           | (8,225)           |
| Foreign exchange losses                                              | —                                 | —                           | (12,300)          | (12,300)          |
| Income tax expense                                                   | —                                 | —                           | (11,976)          | (11,976)          |
| Net income attributable to noncontrolling interests in related party | —                                 | —                           | (3,973)           | (3,973)           |
| <b>Segment income</b>                                                | <u>\$ 59,201</u>                  | <u>\$ —</u>                 | <u>\$ 218,597</u> |                   |
| <b>Net income available to Third Point Re common shareholders</b>    |                                   |                             |                   | <u>\$ 277,798</u> |

### Property and Casualty Reinsurance - Underwriting Ratios <sup>(1)</sup>:

|                                          |        |
|------------------------------------------|--------|
| Loss ratio                               | 67.6%  |
| Acquisition cost ratio                   | 34.5%  |
| Composite ratio                          | 102.1% |
| General and administrative expense ratio | 5.6%   |
| Combined ratio                           | 107.7% |

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

|                                                                      | Year Ended December 31, 2016            |                                   |                  |                  |
|----------------------------------------------------------------------|-----------------------------------------|-----------------------------------|------------------|------------------|
|                                                                      | Property and<br>Casualty<br>Reinsurance | Catastrophe<br>Risk<br>Management | Corporate        | Total            |
| <b>Revenues</b>                                                      | (\$ in thousands)                       |                                   |                  |                  |
| Gross premiums written                                               | \$ 617,374                              | \$ —                              | \$ —             | \$ 617,374       |
| Gross premiums ceded                                                 | (2,325)                                 | —                                 | —                | (2,325)          |
| Net premiums written                                                 | 615,049                                 | —                                 | —                | 615,049          |
| Change in net unearned premium reserves                              | (24,859)                                | —                                 | —                | (24,859)         |
| Net premiums earned                                                  | 590,190                                 | —                                 | —                | 590,190          |
| <b>Expenses</b>                                                      |                                         |                                   |                  |                  |
| Loss and loss adjustment expenses incurred, net                      | 395,932                                 | —                                 | —                | 395,932          |
| Acquisition costs, net                                               | 222,150                                 | —                                 | —                | 222,150          |
| General and administrative expenses                                  | 22,160                                  | —                                 | 17,207           | 39,367           |
| Total expenses                                                       | 640,242                                 | —                                 | 17,207           | 657,449          |
| <b>Net underwriting loss</b>                                         | (50,052)                                | n/a                               | n/a              | n/a              |
| Net investment income                                                | 16,931                                  | —                                 | 81,894           | 98,825           |
| Other expenses                                                       | (8,387)                                 | —                                 | —                | (8,387)          |
| Interest expense                                                     | —                                       | —                                 | (8,231)          | (8,231)          |
| Foreign exchange gains                                               | —                                       | —                                 | 19,521           | 19,521           |
| Income tax expense                                                   | —                                       | —                                 | (5,593)          | (5,593)          |
| Net income attributable to noncontrolling interests in related party | —                                       | —                                 | (1,241)          | (1,241)          |
| <b>Segment income (loss)</b>                                         | <u>\$ (41,508)</u>                      | <u>\$ —</u>                       | <u>\$ 69,143</u> |                  |
| <b>Net income available to Third Point Re common shareholders</b>    |                                         |                                   |                  | <u>\$ 27,635</u> |

**Property and Casualty Reinsurance - Underwriting Ratios <sup>(1)</sup>:**

|                                          |        |
|------------------------------------------|--------|
| Loss ratio                               | 67.1%  |
| Acquisition cost ratio                   | 37.6%  |
| Composite ratio                          | 104.7% |
| General and administrative expense ratio | 3.8%   |
| Combined ratio                           | 108.5% |

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

|                                                                             | Year Ended December 31, 2015      |                             |                    |                    |
|-----------------------------------------------------------------------------|-----------------------------------|-----------------------------|--------------------|--------------------|
|                                                                             | Property and Casualty Reinsurance | Catastrophe Risk Management | Corporate          | Total              |
| <b>Revenues</b>                                                             | (\$ in thousands)                 |                             |                    |                    |
| Gross premiums written                                                      | \$ 702,458                        | \$ (44)                     | \$ —               | \$ 702,414         |
| Gross premiums ceded                                                        | (1,876)                           | —                           | —                  | (1,876)            |
| Net premiums written                                                        | 700,582                           | (44)                        | —                  | 700,538            |
| Change in net unearned premium reserves                                     | (97,766)                          | 52                          | —                  | (97,714)           |
| Net premiums earned                                                         | 602,816                           | 8                           | —                  | 602,824            |
| <b>Expenses</b>                                                             |                                   |                             |                    |                    |
| Loss and loss adjustment expenses incurred, net                             | 415,041                           | 150                         | —                  | 415,191            |
| Acquisition costs, net                                                      | 191,217                           | (1)                         | —                  | 191,216            |
| General and administrative expenses                                         | 24,815                            | 447                         | 20,771             | 46,033             |
| Total expenses                                                              | 631,073                           | 596                         | 20,771             | 652,440            |
| <b>Net underwriting loss</b>                                                | (28,257)                          | n/a                         | n/a                | n/a                |
| Net investment income (loss)                                                | (10,810)                          | 69                          | (17,333)           | (28,074)           |
| Other expenses                                                              | (8,614)                           | —                           | —                  | (8,614)            |
| Interest expense                                                            | —                                 | —                           | (7,236)            | (7,236)            |
| Foreign exchange gains                                                      | —                                 | —                           | 3,196              | 3,196              |
| Income tax benefit                                                          | —                                 | —                           | 2,905              | 2,905              |
| Net (income) loss attributable to noncontrolling interests in related party | —                                 | 102                         | (53)               | 49                 |
| <b>Segment loss</b>                                                         | <u>\$ (47,681)</u>                | <u>\$ (417)</u>             | <u>\$ (39,292)</u> |                    |
| <b>Net loss attributable to Third Point Re common shareholders</b>          |                                   |                             |                    | <u>\$ (87,390)</u> |

**Property and Casualty Reinsurance - Underwriting Ratios <sup>(1)</sup>:**

|                                          |        |
|------------------------------------------|--------|
| Loss ratio                               | 68.9%  |
| Acquisition cost ratio                   | 31.7%  |
| Composite ratio                          | 100.6% |
| General and administrative expense ratio | 4.1%   |
| Combined ratio                           | 104.7% |

(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 years ended December 31, 2017, 2016 and 2015 as a percentage of total gross premiums written in the relevant year:

|                                                        | 2017   | 2016   | 2015   |
|--------------------------------------------------------|--------|--------|--------|
| Largest contract                                       | 16.1%  | 16.1%  | 16.1%  |
| Second largest contract                                | 14.1%  | n/a    | 13.0%  |
| Third largest contract                                 | 13.1%  | n/a    | n/a    |
| Total for contracts contributing greater than 10% each | 43.3%  | 16.1%  | 29.1%  |
| Total for contracts contributing less than 10% each    | 56.7%  | 83.9%  | 70.9%  |
|                                                        | 100.0% | 100.0% | 100.0% |

The following table lists counterparties with whom the Company has reinsurance balances receivable representing more than 10% of the Company's total reinsurance balances receivable as of December 31, 2017 and 2016:

|                                                      | December 31, 2017 |        | December 31, 2016 |        |
|------------------------------------------------------|-------------------|--------|-------------------|--------|
|                                                      | (\$ in thousands) |        |                   |        |
| Counterparty 1                                       | \$ 80,187         | 16.8%  | \$ 82,162         | 21.5%  |
| Counterparty 2                                       | 58,776            | 12.4%  | n/a               | n/a    |
| Counterparty 3                                       | 51,613            | 10.8%  | n/a               | n/a    |
| Counterparty 4                                       | 47,438            | 10.0%  | n/a               | n/a    |
|                                                      | 238,014           | 50.0%  | 82,162            | 21.5%  |
| Other counterparties representing less than 10% each | 237,994           | 50.0%  | 299,789           | 78.5%  |
| Reinsurance balances receivable                      | \$ 476,008        | 100.0% | \$ 381,951        | 100.0% |

The following table provides a breakdown of the Company's gross premiums written by line of business for the years ended December 31, 2017, 2016 and 2015:

|                                         | 2017              |         | 2016   |    | 2015    |        |    |         |        |
|-----------------------------------------|-------------------|---------|--------|----|---------|--------|----|---------|--------|
|                                         | (\$ in thousands) |         |        |    |         |        |    |         |        |
| Property                                | \$                | 136,999 | 21.4%  | \$ | 98,334  | 15.9%  | \$ | 114,215 | 16.2%  |
| Casualty                                |                   | 269,759 | 42.0%  |    | 213,050 | 34.5%  |    | 235,510 | 33.5%  |
| Specialty                               |                   | 125,511 | 19.6%  |    | 305,990 | 49.6%  |    | 244,669 | 34.9%  |
| Total prospective reinsurance contracts |                   | 532,269 | 83.0%  |    | 617,374 | 100.0% |    | 594,394 | 84.6%  |
| Retroactive reinsurance contracts       |                   | 109,351 | 17.0%  |    | —       | —%     |    | 108,064 | 15.4%  |
| Total property and casualty reinsurance |                   | 641,620 | 100.0% |    | 617,374 | 100.0% |    | 702,458 | 100.0% |
| Catastrophe risk management             |                   | —       | —%     |    | —       | —%     |    | (44)    | —%     |
|                                         | \$                | 641,620 | 100.0% | \$ | 617,374 | 100.0% | \$ | 702,414 | 100.0% |

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 years ended December 31, 2017, 2016 and 2015:

|                       | 2017              |         | 2016   |    | 2015    |        |    |         |        |
|-----------------------|-------------------|---------|--------|----|---------|--------|----|---------|--------|
|                       | (\$ in thousands) |         |        |    |         |        |    |         |        |
| Largest broker        | \$                | 243,581 | 38.0%  | \$ | 240,172 | 38.9%  | \$ | 198,209 | 28.2%  |
| Second largest broker |                   | 128,648 | 20.1%  |    | 185,638 | 30.1%  |    | 163,832 | 23.3%  |
| Third largest broker  |                   | 107,612 | 16.8%  |    | 97,148  | 15.7%  |    | 91,554  | 13.0%  |
| Fourth largest broker |                   | n/a     | n/a    |    | n/a     | n/a    |    | 73,499  | 10.5%  |
| Other                 |                   | 161,779 | 25.1%  |    | 94,416  | 15.3%  |    | 175,320 | 25.0%  |
|                       | \$                | 641,620 | 100.0% | \$ | 617,374 | 100.0% | \$ | 702,414 | 100.0% |

The following table provides a breakdown of the Company's gross premiums written by domicile of the ceding companies for the years ended December 31, 2017, 2016 and 2015:

|                | 2017              |        | 2016       |        | 2015       |        |
|----------------|-------------------|--------|------------|--------|------------|--------|
|                | (\$ in thousands) |        |            |        |            |        |
| United States  | \$ 352,539        | 54.9%  | \$ 332,849 | 53.9%  | \$ 283,626 | 40.4%  |
| United Kingdom | 203,768           | 31.8%  | 187,625    | 30.4%  | 290,710    | 41.4%  |
| Bermuda        | 62,234            | 9.7%   | 96,900     | 15.7%  | 128,078    | 18.2%  |
| Other          | 23,079            | 3.6%   | —          | —%     | —          | —%     |
|                | \$ 641,620        | 100.0% | \$ 617,374 | 100.0% | \$ 702,414 | 100.0% |

## 23. Statutory requirements

Under the Bermuda Insurance Act 1978, as amended, and related regulations, Third Point Re BDA and Third Point Re USA are subject to capital requirements calculated using the Bermuda Solvency and Capital Requirement (“BSCR”) model, which is a standardized statutory risk-based capital model used to measure the risk associated with Third Point Re BDA’s and Third Point Re USA’s assets, liabilities and premiums. Third Point Re BDA’s and Third Point Re USA’s required statutory capital and surplus under the BSCR model is referred to as the enhanced capital requirement (“ECR”). Third Point Re BDA and Third Point Re USA are required to calculate and submit the ECR to the Bermuda Monetary Authority (“BMA”), annually. Following receipt of the submission of Third Point Re BDA’s and Third Point Re USA’s ECR, the BMA has the authority to impose additional capital requirements (capital add-ons) if it deems necessary. If a company fails to maintain or meet its ECR, the BMA may take various degrees of regulatory action. In 2016, the BMA implemented the economic balance sheet (“EBS”) framework, which is now used as the basis to determine the Company’s ECR. Under the new framework, assets and liabilities are mainly assessed and included on the EBS at fair value, with the insurer’s U.S. GAAP balance sheet serving as a starting point. The model also requires insurers to estimate insurance technical provisions, which consist of the insurer’s insurance related balances valued based on best-estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate, with the addition of a risk margin to reflect the uncertainty in the underlying cash flows. As of December 31, 2017 and 2016, Third Point Re BDA and Third Point Re USA met their ECR.

As of December 31, 2017 and 2016, the principal difference between statutory capital and surplus and shareholders’ equity presented in accordance with GAAP is that prepaid expenses is a non-admitted asset for statutory purposes.

Third Point Re BDA and Third Point Re USA are also required under their Class 4 licenses to maintain minimum liquidity ratios whereby the value of their relevant assets are not less than 75% of the amount of their relevant liabilities for general business. As of December 31, 2017 and 2016, Third Point Re BDA and Third Point Re USA met their minimum liquidity ratio requirements.

The following is a summary of actual and required statutory capital and surplus, based on the EBS framework, of Third Point Re BDA and Third Point Re USA as of December 31, 2017 and 2016:

|                                               | December 31,<br>2017 | December 31,<br>2016 |
|-----------------------------------------------|----------------------|----------------------|
|                                               | (\$ in thousands)    |                      |
| <u>Actual statutory capital and surplus</u>   |                      |                      |
| Third Point Re BDA                            | \$ 1,430,174         | \$ 1,259,876         |
| Third Point Re USA                            | 265,206              | 282,552              |
| <u>Required statutory capital and surplus</u> |                      |                      |
| Third Point Re BDA                            | 759,518              | 642,349              |
| Third Point Re USA                            | \$ 93,261            | \$ 89,557            |

The following is a summary of the statutory net income (loss) for Third Point Re and Third Point Re USA for the years ended December 31, 2017, 2016 and 2015:

|                    | 2017              | 2016      | 2015        |
|--------------------|-------------------|-----------|-------------|
|                    | (\$ in thousands) |           |             |
| Third Point Re BDA | \$ 265,903        | \$ 35,096 | \$ (68,188) |
| Third Point Re USA | \$ 22,310         | \$ 2,701  | \$ (7,510)  |

## Dividend restrictions

### *Third Point Re BDA*

Third Point Re BDA may declare dividends subject to it continuing to meet its solvency and capital requirements, which includes continuing to hold statutory capital and surplus equal to or exceeding its ECR. In addition, Third Point Re BDA is prohibited from declaring or paying in any fiscal year dividends of more than 25% of its prior year’s statutory

capital and surplus unless Third Point Re BDA files with the BMA a signed affidavit by at least two members of the Board of Directors attesting that a dividend would not cause Third Point Re BDA to fail to meet its capital requirements. As of December 31, 2017, Third Point Re BDA could pay dividends in 2018 of approximately \$357.5 million (December 31, 2016 - \$315.0 million) without providing an affidavit to the BMA.

### ***Third Point Re USA***

Third Point Re USA may declare dividends subject to it continuing to meet its solvency and capital requirements, which includes continuing to hold statutory capital and surplus equal to or exceeding its ECR. Third Point Re USA is prohibited from declaring or paying in any fiscal year dividends of more than 25% of its prior year's statutory capital and surplus, unless Third Point Re USA files with the BMA a signed affidavit by at least two members of the Board of Directors attesting that a dividend would not cause Third Point Re USA to fail to meet its capital requirements. Third Point Re USA is also restricted by the amount of shareholder's equity that is available for the payment of dividends and must maintain a minimum shareholder's equity of \$250.0 million as per the Net Worth Maintenance Agreement. As of December 31, 2017, Third Point Re USA could pay dividends in 2018 of approximately \$24.3 million (December 31, 2016 - \$19.6 million ).

## **24. Subsequent events**

On February 28, 2018, the Company's Board of Directors authorized the repurchase of an additional \$148.3 million common shares, which together with the shares remaining under the previously announced share repurchase program will allow the Company to repurchase up to \$200.0 million more of the Company's outstanding common shares in the aggregate. 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.

## **25. Supplemental guarantor information**

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

The following information sets forth the consolidating balance sheets as of December 31, 2017 and 2016 and the consolidating statements of income (loss) and cash flows for the years ended December 31, 2017, 2016 and 2015 for Third Point Re, TPRUSA and the non-guarantor subsidiaries of Third Point Re. 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.

**CONSOLIDATING BALANCE SHEET**  
**As of December 31, 2017**  
(expressed in thousands of U.S. dollars)

|                                                                                | Third Point<br>Re   | TPRUSA            | Non-<br>Guarantor<br>Subsidiaries | Eliminations          | Consolidated        |
|--------------------------------------------------------------------------------|---------------------|-------------------|-----------------------------------|-----------------------|---------------------|
| <b>Assets</b>                                                                  |                     |                   |                                   |                       |                     |
| Equity securities                                                              | \$ —                | \$ —              | \$ 2,283,050                      | \$ —                  | \$ 2,283,050        |
| Debt securities                                                                | —                   | —                 | 675,158                           | —                     | 675,158             |
| Other investments                                                              | —                   | —                 | 37,731                            | —                     | 37,731              |
| Total investments in securities                                                | —                   | —                 | 2,995,939                         | —                     | 2,995,939           |
| Cash and cash equivalents                                                      | 9                   | 199               | 7,989                             | —                     | 8,197               |
| Restricted cash and cash equivalents                                           | —                   | —                 | 541,136                           | —                     | 541,136             |
| Investment in subsidiaries                                                     | 1,657,467           | 274,272           | 164,909                           | (2,096,648)           | —                   |
| Due from brokers                                                               | —                   | —                 | 305,093                           | —                     | 305,093             |
| Derivative assets, at fair value                                               | —                   | —                 | 73,372                            | —                     | 73,372              |
| Interest and dividends receivable                                              | —                   | —                 | 3,774                             | —                     | 3,774               |
| Reinsurance balances receivable                                                | —                   | —                 | 476,008                           | —                     | 476,008             |
| Deferred acquisition costs, net                                                | —                   | —                 | 258,793                           | —                     | 258,793             |
| Amounts due from (to) affiliates                                               | (1,288)             | 412               | 876                               | —                     | —                   |
| Other assets                                                                   | 664                 | —                 | 8,818                             | —                     | 9,482               |
| <b>Total assets</b>                                                            | <b>\$ 1,656,852</b> | <b>\$ 274,883</b> | <b>\$ 4,836,707</b>               | <b>\$ (2,096,648)</b> | <b>\$ 4,671,794</b> |
| <b>Liabilities</b>                                                             |                     |                   |                                   |                       |                     |
| Accounts payable and accrued expenses (1)                                      | \$ 763              | \$ (8,805)        | \$ 42,674                         | \$ —                  | \$ 34,632           |
| Reinsurance balances payable                                                   | —                   | —                 | 41,614                            | —                     | 41,614              |
| Deposit liabilities                                                            | —                   | —                 | 129,133                           | —                     | 129,133             |
| Unearned premium reserves                                                      | —                   | —                 | 649,518                           | —                     | 649,518             |
| Loss and loss adjustment expense reserves                                      | —                   | —                 | 720,570                           | —                     | 720,570             |
| Securities sold, not yet purchased, at fair value                              | —                   | —                 | 394,278                           | —                     | 394,278             |
| Securities sold under an agreement to repurchase                               | —                   | —                 | 29,618                            | —                     | 29,618              |
| Due to brokers                                                                 | —                   | —                 | 770,205                           | —                     | 770,205             |
| Derivative liabilities, at fair value                                          | —                   | —                 | 14,503                            | —                     | 14,503              |
| Interest and dividends payable                                                 | —                   | 3,055             | 1,220                             | —                     | 4,275               |
| Senior notes payable, net of deferred costs                                    | —                   | 113,733           | —                                 | —                     | 113,733             |
| <b>Total liabilities</b>                                                       | <b>763</b>          | <b>107,983</b>    | <b>2,793,333</b>                  | <b>—</b>              | <b>2,902,079</b>    |
| Redeemable noncontrolling interests in related party                           | —                   | —                 | 108,219                           | —                     | 108,219             |
| <b>Shareholders' equity</b>                                                    |                     |                   |                                   |                       |                     |
| Common shares                                                                  | 10,723              | —                 | 1,250                             | (1,250)               | 10,723              |
| Treasury shares                                                                | (48,253)            | —                 | —                                 | —                     | (48,253)            |
| Additional paid-in capital                                                     | 1,099,599           | 165,097           | 1,531,770                         | (1,696,867)           | 1,099,599           |
| Retained earnings (deficit)                                                    | 594,020             | 1,803             | 396,728                           | (398,531)             | 594,020             |
| <b>Shareholders' equity attributable to Third Point Re common shareholders</b> | <b>1,656,089</b>    | <b>166,900</b>    | <b>1,929,748</b>                  | <b>(2,096,648)</b>    | <b>1,656,089</b>    |
| Noncontrolling interests in related party                                      | —                   | —                 | 5,407                             | —                     | 5,407               |
| <b>Total shareholders' equity</b>                                              | <b>1,656,089</b>    | <b>166,900</b>    | <b>1,935,155</b>                  | <b>(2,096,648)</b>    | <b>1,661,496</b>    |
| <b>Total liabilities, noncontrolling interests and shareholders' equity</b>    | <b>\$ 1,656,852</b> | <b>\$ 274,883</b> | <b>\$ 4,836,707</b>               | <b>\$ (2,096,648)</b> | <b>\$ 4,671,794</b> |

(1) Negative balance of \$8.8 million represents net deferred tax assets that are offset by net deferred tax liabilities in Third Point Re USA of \$9.9 million, resulting in a net liability position as of December 31, 2017.

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

|                                                                                | Third Point<br>Re   | TPRUSA            | Non-<br>Guarantor<br>Subsidiaries | Eliminations          | Consolidated        |
|--------------------------------------------------------------------------------|---------------------|-------------------|-----------------------------------|-----------------------|---------------------|
| <b>Assets</b>                                                                  |                     |                   |                                   |                       |                     |
| Equity securities                                                              | \$ —                | \$ —              | \$ 1,506,854                      | \$ —                  | \$ 1,506,854        |
| Debt securities                                                                | —                   | —                 | 1,057,957                         | —                     | 1,057,957           |
| Other investments                                                              | —                   | —                 | 82,701                            | —                     | 82,701              |
| Total investments in securities                                                | —                   | —                 | 2,647,512                         | —                     | 2,647,512           |
| Cash and cash equivalents                                                      | 1,629               | 79                | 8,243                             | —                     | 9,951               |
| Restricted cash and cash equivalents                                           | —                   | —                 | 298,940                           | —                     | 298,940             |
| Investment in subsidiaries                                                     | 1,413,078           | 269,622           | 165,324                           | (1,848,024)           | —                   |
| Due from brokers                                                               | —                   | —                 | 284,591                           | —                     | 284,591             |
| Derivative assets, at fair value                                               | —                   | —                 | 27,432                            | —                     | 27,432              |
| Interest and dividends receivable                                              | —                   | —                 | 6,505                             | —                     | 6,505               |
| Reinsurance balances receivable                                                | —                   | —                 | 381,951                           | —                     | 381,951             |
| Deferred acquisition costs, net                                                | —                   | —                 | 221,618                           | —                     | 221,618             |
| Amounts due from (to) affiliates                                               | (142)               | (8,394)           | 8,536                             | —                     | —                   |
| Other assets                                                                   | 637                 | 5,507             | 11,000                            | —                     | 17,144              |
| <b>Total assets</b>                                                            | <b>\$ 1,415,202</b> | <b>\$ 266,814</b> | <b>\$ 4,061,652</b>               | <b>\$ (1,848,024)</b> | <b>\$ 3,895,644</b> |
| <b>Liabilities</b>                                                             |                     |                   |                                   |                       |                     |
| Accounts payable and accrued expenses                                          | \$ 1,151            | \$ 40             | \$ 9,130                          | \$ —                  | \$ 10,321           |
| Reinsurance balances payable                                                   | —                   | —                 | 43,171                            | —                     | 43,171              |
| Deposit liabilities                                                            | —                   | —                 | 104,905                           | —                     | 104,905             |
| Unearned premium reserves                                                      | —                   | —                 | 557,076                           | —                     | 557,076             |
| Loss and loss adjustment expense reserves                                      | —                   | —                 | 605,129                           | —                     | 605,129             |
| Securities sold, not yet purchased, at fair value                              | —                   | —                 | 92,668                            | —                     | 92,668              |
| Due to brokers                                                                 | —                   | —                 | 899,601                           | —                     | 899,601             |
| Derivative liabilities, at fair value                                          | —                   | —                 | 16,050                            | —                     | 16,050              |
| Interest and dividends payable                                                 | —                   | 3,057             | 386                               | —                     | 3,443               |
| Senior notes payable, net of deferred costs                                    | —                   | 113,555           | —                                 | —                     | 113,555             |
| <b>Total liabilities</b>                                                       | <b>1,151</b>        | <b>116,652</b>    | <b>2,328,116</b>                  | <b>—</b>              | <b>2,445,919</b>    |
| <b>Shareholders' equity</b>                                                    |                     |                   |                                   |                       |                     |
| Common shares                                                                  | 10,650              | —                 | 1,250                             | (1,250)               | 10,650              |
| Treasury shares                                                                | (7,389)             | —                 | —                                 | —                     | (7,389)             |
| Additional paid-in capital                                                     | 1,094,568           | 165,456           | 1,528,827                         | (1,694,283)           | 1,094,568           |
| Retained earnings (deficit)                                                    | 316,222             | (15,294)          | 167,785                           | (152,491)             | 316,222             |
| <b>Shareholders' equity attributable to Third Point Re common shareholders</b> | <b>1,414,051</b>    | <b>150,162</b>    | <b>1,697,862</b>                  | <b>(1,848,024)</b>    | <b>1,414,051</b>    |
| Noncontrolling interests in related party                                      | —                   | —                 | 35,674                            | —                     | 35,674              |
| <b>Total shareholders' equity</b>                                              | <b>1,414,051</b>    | <b>150,162</b>    | <b>1,733,536</b>                  | <b>(1,848,024)</b>    | <b>1,449,725</b>    |
| <b>Total liabilities, noncontrolling interests and shareholders' equity</b>    | <b>\$ 1,415,202</b> | <b>\$ 266,814</b> | <b>\$ 4,061,652</b>               | <b>\$ (1,848,024)</b> | <b>\$ 3,895,644</b> |



**CONSOLIDATING STATEMENT OF INCOME**  
**Year Ended December 31, 2017**  
(expressed in thousands of U.S. dollars)

|                                                                      | <b>Third Point<br/>Re</b> | <b>TPRUSA</b>    | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|----------------------------------------------------------------------|---------------------------|------------------|--------------------------------------------|---------------------|---------------------|
| <b>Revenues</b>                                                      |                           |                  |                                            |                     |                     |
| Gross premiums written                                               | \$ —                      | \$ —             | \$ 641,620                                 | \$ —                | \$ 641,620          |
| Gross premiums ceded                                                 | —                         | —                | (2,475)                                    | —                   | (2,475)             |
| Net premiums written                                                 | —                         | —                | 639,145                                    | —                   | 639,145             |
| Change in net unearned premium reserves                              | —                         | —                | (92,087)                                   | —                   | (92,087)            |
| Net premiums earned                                                  | —                         | —                | 547,058                                    | —                   | 547,058             |
| Net investment income                                                | —                         | —                | 391,953                                    | —                   | 391,953             |
| Equity in earnings (losses) of subsidiaries                          | 283,088                   | 22,309           | (57)                                       | (305,340)           | —                   |
| Total revenues                                                       | 283,088                   | 22,309           | 938,954                                    | (305,340)           | 939,011             |
| <b>Expenses</b>                                                      |                           |                  |                                            |                     |                     |
| Loss and loss adjustment expenses incurred, net                      | —                         | —                | 370,058                                    | —                   | 370,058             |
| Acquisition costs, net                                               | —                         | —                | 188,904                                    | —                   | 188,904             |
| General and administrative expenses                                  | 5,290                     | 49               | 47,764                                     | —                   | 53,103              |
| Other expenses                                                       | —                         | —                | 12,674                                     | —                   | 12,674              |
| Interest expense                                                     | —                         | 8,225            | —                                          | —                   | 8,225               |
| Foreign exchange losses                                              | —                         | —                | 12,300                                     | —                   | 12,300              |
| Total expenses                                                       | 5,290                     | 8,274            | 631,700                                    | —                   | 645,264             |
| Income before income tax expense                                     | 277,798                   | 14,035           | 307,254                                    | (305,340)           | 293,747             |
| Income tax (expense) benefit                                         | —                         | 3,062            | (15,038)                                   | —                   | (11,976)            |
| <b>Net income</b>                                                    | 277,798                   | 17,097           | 292,216                                    | (305,340)           | 281,771             |
| Net income attributable to noncontrolling interests in related party | —                         | —                | (3,973)                                    | —                   | (3,973)             |
| <b>Net income available to Third Point Re common shareholders</b>    | <u>\$ 277,798</u>         | <u>\$ 17,097</u> | <u>\$ 288,243</u>                          | <u>\$ (305,340)</u> | <u>\$ 277,798</u>   |

**CONSOLIDATING STATEMENT OF INCOME (LOSS)**

**Year Ended December 31, 2016**

(expressed in thousands of U.S. dollars)

|                                                                          | <b>Third Point<br/>Re</b> | <b>TPRUSA</b>     | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--------------------------------------------------------------------------|---------------------------|-------------------|--------------------------------------------|---------------------|---------------------|
| <b>Revenues</b>                                                          |                           |                   |                                            |                     |                     |
| Gross premiums written                                                   | \$ —                      | \$ —              | \$ 617,374                                 | \$ —                | \$ 617,374          |
| Gross premiums ceded                                                     | —                         | —                 | (2,325)                                    | —                   | (2,325)             |
| Net premiums written                                                     | —                         | —                 | 615,049                                    | —                   | 615,049             |
| Change in net unearned premium reserves                                  | —                         | —                 | (24,859)                                   | —                   | (24,859)            |
| Net premiums earned                                                      | —                         | —                 | 590,190                                    | —                   | 590,190             |
| Net investment income                                                    | —                         | —                 | 98,825                                     | —                   | 98,825              |
| Equity in earnings (losses) of subsidiaries                              | 32,347                    | 2,701             | (107)                                      | (34,941)            | —                   |
| Total revenues                                                           | 32,347                    | 2,701             | 688,908                                    | (34,941)            | 689,015             |
| <b>Expenses</b>                                                          |                           |                   |                                            |                     |                     |
| Loss and loss adjustment expenses incurred, net                          | —                         | —                 | 395,932                                    | —                   | 395,932             |
| Acquisition costs, net                                                   | —                         | —                 | 222,150                                    | —                   | 222,150             |
| General and administrative expenses                                      | 4,712                     | 40                | 34,615                                     | —                   | 39,367              |
| Other expenses                                                           | —                         | —                 | 8,387                                      | —                   | 8,387               |
| Interest expense                                                         | —                         | 8,231             | —                                          | —                   | 8,231               |
| Foreign exchange gains                                                   | —                         | —                 | (19,521)                                   | —                   | (19,521)            |
| Total expenses                                                           | 4,712                     | 8,271             | 641,563                                    | —                   | 654,546             |
| Income (loss) before income tax (expense) benefit                        | 27,635                    | (5,570)           | 47,345                                     | (34,941)            | 34,469              |
| Income tax (expense) benefit                                             | —                         | 2,895             | (8,488)                                    | —                   | (5,593)             |
| <b>Net income (loss)</b>                                                 | 27,635                    | (2,675)           | 38,857                                     | (34,941)            | 28,876              |
| Net income attributable to noncontrolling interests in related party     | —                         | —                 | (1,241)                                    | —                   | (1,241)             |
| <b>Net income (loss) available to Third Point Re common shareholders</b> | <u>\$ 27,635</u>          | <u>\$ (2,675)</u> | <u>\$ 37,616</u>                           | <u>\$ (34,941)</u>  | <u>\$ 27,635</u>    |

**CONSOLIDATING STATEMENT OF LOSS**  
**Year Ended December 31, 2015**  
(expressed in thousands of U.S. dollars)

|                                                                    | <b>Third Point<br/>Re</b> | <b>TPRUSA</b>      | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--------------------------------------------------------------------|---------------------------|--------------------|--------------------------------------------|---------------------|---------------------|
| <b>Revenues</b>                                                    |                           |                    |                                            |                     |                     |
| Gross premiums written                                             | \$ —                      | \$ —               | \$ 702,414                                 | \$ —                | \$ 702,414          |
| Gross premiums ceded                                               | —                         | —                  | (1,876)                                    | —                   | (1,876)             |
| Net premiums written                                               | —                         | —                  | 700,538                                    | —                   | 700,538             |
| Change in net unearned premium reserves                            | —                         | —                  | (97,714)                                   | —                   | (97,714)            |
| Net premiums earned                                                | —                         | —                  | 602,824                                    | —                   | 602,824             |
| Net investment loss                                                | —                         | —                  | (28,074)                                   | —                   | (28,074)            |
| Equity in earnings of subsidiaries                                 | (79,053)                  | (7,510)            | (25)                                       | 86,588              | —                   |
| Total revenues                                                     | (79,053)                  | (7,510)            | 574,725                                    | 86,588              | 574,750             |
| <b>Expenses</b>                                                    |                           |                    |                                            |                     |                     |
| Loss and loss adjustment expenses incurred, net                    | —                         | —                  | 415,191                                    | —                   | 415,191             |
| Acquisition costs, net                                             | —                         | —                  | 191,216                                    | —                   | 191,216             |
| General and administrative expenses                                | 8,337                     | 231                | 37,465                                     | —                   | 46,033              |
| Other expenses                                                     | —                         | —                  | 8,614                                      | —                   | 8,614               |
| Interest expense                                                   | —                         | 7,236              | —                                          | —                   | 7,236               |
| Foreign exchange gains                                             | —                         | —                  | (3,196)                                    | —                   | (3,196)             |
| Total expenses                                                     | 8,337                     | 7,467              | 649,290                                    | —                   | 665,094             |
| Loss before income tax benefit                                     | (87,390)                  | (14,977)           | (74,565)                                   | 86,588              | (90,344)            |
| Income tax benefit                                                 | —                         | 2,613              | 292                                        | —                   | 2,905               |
| <b>Net loss</b>                                                    | (87,390)                  | (12,364)           | (74,273)                                   | 86,588              | (87,439)            |
| Net loss attributable to noncontrolling interests in related party | —                         | —                  | 49                                         | —                   | 49                  |
| <b>Net loss attributable to Third Point Re common shareholders</b> | <u>\$ (87,390)</u>        | <u>\$ (12,364)</u> | <u>\$ (74,224)</u>                         | <u>\$ 86,588</u>    | <u>\$ (87,390)</u>  |

**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2017**  
(expressed in thousands of U.S. dollars)

|                                                                                             | <b>Third Point<br/>Re</b> | <b>TPRUSA</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------------------------------------------------------|---------------------------|---------------|--------------------------------------------|---------------------|---------------------|
| <b>Operating activities</b>                                                                 |                           |               |                                            |                     |                     |
| Net income                                                                                  | \$ 277,798                | \$ 17,097     | \$ 292,216                                 | \$ (305,340)        | \$ 281,771          |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                           |               |                                            |                     |                     |
| Equity in (earnings) losses of subsidiaries                                                 | (283,088)                 | (22,309)      | 57                                         | 305,340             | —                   |
| Share compensation expense                                                                  | 298                       | —             | 3,301                                      | —                   | 3,599               |
| Net interest expense on deposit liabilities                                                 | —                         | —             | 2,800                                      | —                   | 2,800               |
| Net unrealized gain on investments and derivatives                                          | —                         | —             | (255,029)                                  | —                   | (255,029)           |
| Net realized gain on investments and derivatives                                            | —                         | —             | (225,016)                                  | —                   | (225,016)           |
| Net foreign exchange losses                                                                 | —                         | —             | 12,300                                     | —                   | 12,300              |
| Amortization of premium and accretion of discount, net                                      | —                         | 178           | 295                                        | —                   | 473                 |
| <b>Changes in assets and liabilities:</b>                                                   |                           |               |                                            |                     |                     |
| Reinsurance balances receivable                                                             | —                         | —             | (86,606)                                   | —                   | (86,606)            |
| Deferred acquisition costs, net                                                             | —                         | —             | (37,175)                                   | —                   | (37,175)            |
| Other assets                                                                                | (27)                      | 5,507         | 2,191                                      | —                   | 7,671               |
| Interest and dividends receivable, net                                                      | —                         | (2)           | 3,565                                      | —                   | 3,563               |
| Unearned premium reserves                                                                   | —                         | —             | 92,442                                     | —                   | 92,442              |
| Loss and loss adjustment expense reserves                                                   | —                         | —             | 97,922                                     | —                   | 97,922              |
| Accounts payable and accrued expenses                                                       | (388)                     | (8,845)       | 33,445                                     | —                   | 24,212              |
| Reinsurance balances payable                                                                | —                         | —             | (1,463)                                    | —                   | (1,463)             |
| Amounts due from (to) affiliates                                                            | 1,146                     | (8,806)       | 7,660                                      | —                   | —                   |
| Net cash used in operating activities                                                       | (4,261)                   | (17,180)      | (57,095)                                   | —                   | (78,536)            |
| <b>Investing activities</b>                                                                 |                           |               |                                            |                     |                     |
| Purchases of investments                                                                    | —                         | —             | (3,099,525)                                | —                   | (3,099,525)         |
| Proceeds from sales of investments                                                          | —                         | —             | 3,228,251                                  | —                   | 3,228,251           |
| Purchases of investments to cover short sales                                               | —                         | —             | (791,753)                                  | —                   | (791,753)           |
| Proceeds from short sales of investments                                                    | —                         | —             | 1,048,552                                  | —                   | 1,048,552           |
| Change in due to/from brokers, net                                                          | —                         | —             | (149,898)                                  | —                   | (149,898)           |
| Increase in securities sold under an agreement to repurchase                                | —                         | —             | 29,618                                     | —                   | 29,618              |
| Change in restricted cash and cash equivalents                                              | —                         | —             | (242,196)                                  | —                   | (242,196)           |
| Net cash provided by investing activities                                                   | —                         | —             | 23,049                                     | —                   | 23,049              |
| <b>Financing activities</b>                                                                 |                           |               |                                            |                     |                     |
| Proceeds from issuance of Third Point Re common shares, net of costs                        | 1,505                     | —             | —                                          | —                   | 1,505               |
| Purchases of Third Point Re common shares under share repurchase program                    | (40,864)                  | —             | —                                          | —                   | (40,864)            |
| Decrease in deposit liabilities, net                                                        | —                         | —             | 19,113                                     | —                   | 19,113              |
| Change in total noncontrolling interests in related party, net                              | —                         | —             | 73,979                                     | —                   | 73,979              |
| Dividend received by (paid to) parent                                                       | 42,000                    | 17,300        | (59,300)                                   | —                   | —                   |
| Net cash provided by financing activities                                                   | 2,641                     | 17,300        | 33,792                                     | —                   | 53,733              |
| Net increase (decrease) in cash and cash equivalents                                        | (1,620)                   | 120           | (254)                                      | —                   | (1,754)             |
| Cash and cash equivalents at beginning of year                                              | 1,629                     | 79            | 8,243                                      | —                   | 9,951               |
| <b>Cash and cash equivalents at end of year</b>                                             | <b>\$ 9</b>               | <b>\$ 199</b> | <b>\$ 7,989</b>                            | <b>\$ —</b>         | <b>\$ 8,197</b>     |

**CONSOLIDATING STATEMENT OF CASH FLOWS**

**Year Ended December 31, 2016**

**(expressed in thousands of U.S. dollars)**

|                                                                                                    | <b>Third Point<br/>Re</b> | <b>TPRUSA</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|----------------------------------------------------------------------------------------------------|---------------------------|---------------|--------------------------------------------|---------------------|---------------------|
| <b>Operating activities</b>                                                                        |                           |               |                                            |                     |                     |
| Net income (loss)                                                                                  | \$ 27,635                 | \$ (2,675)    | \$ 38,857                                  | \$ (34,941)         | \$ 28,876           |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                           |               |                                            |                     |                     |
| Equity in (earnings) losses of subsidiaries                                                        | (32,347)                  | (2,701)       | 107                                        | 34,941              | —                   |
| Share compensation expense                                                                         | 543                       | —             | 8,395                                      | —                   | 8,938               |
| Net interest income on deposit liabilities                                                         | —                         | —             | (164)                                      | —                   | (164)               |
| Net unrealized gain on investments and derivatives                                                 | —                         | —             | (72,083)                                   | —                   | (72,083)            |
| Net realized gain on investments and derivatives                                                   | —                         | —             | (33,179)                                   | —                   | (33,179)            |
| Net foreign exchange gains                                                                         | —                         | —             | (19,521)                                   | —                   | (19,521)            |
| Amortization of premium and accretion of discount, net                                             | —                         | 178           | 4,940                                      | —                   | 5,118               |
| <b>Changes in assets and liabilities:</b>                                                          |                           |               |                                            |                     |                     |
| Reinsurance balances receivable                                                                    | —                         | —             | (86,612)                                   | —                   | (86,612)            |
| Deferred acquisition costs, net                                                                    | —                         | —             | (24,525)                                   | —                   | (24,525)            |
| Other assets                                                                                       | (73)                      | (2,894)       | (2,036)                                    | —                   | (5,003)             |
| Interest and dividends receivable, net                                                             | —                         | 2             | 3,223                                      | —                   | 3,225               |
| Unearned premium reserves                                                                          | —                         | —             | 25,366                                     | —                   | 25,366              |
| Loss and loss adjustment expense reserves                                                          | —                         | —             | 156,644                                    | —                   | 156,644             |
| Accounts payable and accrued expenses                                                              | (1,985)                   | —             | (110)                                      | —                   | (2,095)             |
| Reinsurance balances payable                                                                       | —                         | —             | 19,786                                     | —                   | 19,786              |
| Amounts due from (to) affiliates                                                                   | (204)                     | 8,164         | (7,960)                                    | —                   | —                   |
| Net cash provided by (used in) operating activities                                                | (6,431)                   | 74            | 11,128                                     | —                   | 4,771               |
| <b>Investing activities</b>                                                                        |                           |               |                                            |                     |                     |
| Purchases of investments                                                                           | —                         | —             | (3,729,944)                                | —                   | (3,729,944)         |
| Proceeds from sales of investments                                                                 | —                         | —             | 3,504,598                                  | —                   | 3,504,598           |
| Purchases of investments to cover short sales                                                      | —                         | —             | (1,264,404)                                | —                   | (1,264,404)         |
| Proceeds from short sales of investments                                                           | —                         | —             | 1,046,422                                  | —                   | 1,046,422           |
| Change in due to/from brokers, net                                                                 | —                         | —             | 367,019                                    | —                   | 367,019             |
| Increase in securities sold under an agreement to repurchase                                       | —                         | —             | (8,944)                                    | —                   | (8,944)             |
| Change in restricted cash and cash equivalents                                                     | —                         | —             | 31,975                                     | —                   | 31,975              |
| Contributed capital to subsidiaries                                                                | (5,000)                   | 5,000         | —                                          | —                   | —                   |
| Contributed capital from parent and/or subsidiaries                                                | —                         | (5,000)       | 5,000                                      | —                   | —                   |
| Net cash used in investing activities                                                              | (5,000)                   | —             | (48,278)                                   | —                   | (53,278)            |
| <b>Financing activities</b>                                                                        |                           |               |                                            |                     |                     |
| Proceeds from issuance of common shares, net of costs                                              | 5,141                     | —             | —                                          | —                   | 5,141               |
| Purchases of Third Point Re common shares under share repurchase program                           | (7,389)                   | —             | —                                          | —                   | (7,389)             |
| Increase in deposit liabilities                                                                    | —                         | —             | 22,023                                     | —                   | 22,023              |
| Change in total noncontrolling interests in related party, net                                     | —                         | —             | 18,276                                     | —                   | 18,276              |
| Dividend received by (paid to) parent                                                              | 15,000                    | —             | (15,000)                                   | —                   | —                   |
| Net cash provided by financing activities                                                          | 12,752                    | —             | 25,299                                     | —                   | 38,051              |
| Net increase (decrease) in cash and cash equivalents                                               | 1,321                     | 74            | (11,851)                                   | —                   | (10,456)            |
| Cash and cash equivalents at beginning of year                                                     | 308                       | 5             | 20,094                                     | —                   | 20,407              |
| <b>Cash and cash equivalents at end of year</b>                                                    | <b>\$ 1,629</b>           | <b>\$ 79</b>  | <b>\$ 8,243</b>                            | <b>\$ —</b>         | <b>\$ 9,951</b>     |

**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2015**  
(expressed in thousands of U.S. dollars)

|                                                                                          | Third Point<br>Re | TPRUSA      | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated     |
|------------------------------------------------------------------------------------------|-------------------|-------------|-----------------------------------|--------------|------------------|
| <b>Operating activities</b>                                                              |                   |             |                                   |              |                  |
| Net loss                                                                                 | \$ (87,390)       | \$ (12,364) | \$ (74,273)                       | \$ 86,588    | \$ (87,439)      |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities |                   |             |                                   |              |                  |
| Equity in earnings of subsidiaries                                                       | 79,053            | 7,510       | 25                                | (86,588)     | —                |
| Share compensation expense                                                               | 542               | —           | 10,329                            | —            | 10,871           |
| Net interest expense on deposit liabilities                                              | —                 | —           | 6,471                             | —            | 6,471            |
| Net unrealized loss on investments and derivatives                                       | —                 | —           | 32,354                            | —            | 32,354           |
| Net realized gain on investments and derivatives                                         | —                 | —           | (16,655)                          | —            | (16,655)         |
| Net foreign exchange gains                                                               | —                 | —           | (3,196)                           | —            | (3,196)          |
| Amortization of premium and accretion of discount, net                                   | —                 | 157         | 167                               | —            | 324              |
| <b>Changes in assets and liabilities:</b>                                                |                   |             |                                   |              |                  |
| Reinsurance balances receivable                                                          | —                 | —           | 8,768                             | —            | 8,768            |
| Deferred acquisition costs, net                                                          | —                 | —           | (41,192)                          | —            | (41,192)         |
| Other assets                                                                             | 36                | (1,947)     | (5,904)                           | —            | (7,815)          |
| Interest and dividends receivable, net                                                   | —                 | 3,055       | (7,437)                           | —            | (4,382)          |
| Unearned premium reserves                                                                | —                 | —           | 97,901                            | —            | 97,901           |
| Loss and loss adjustment expense reserves                                                | —                 | —           | 192,433                           | —            | 192,433          |
| Accounts payable and accrued expenses                                                    | 1,910             | (478)       | 449                               | —            | 1,881            |
| Reinsurance balances payable                                                             | —                 | —           | (2,548)                           | —            | (2,548)          |
| Amounts due from (to) affiliates                                                         | 1,685             | (173)       | (1,512)                           | —            | —                |
| Net cash provided by (used in) operating activities                                      | (4,164)           | (4,240)     | 196,180                           | —            | 187,776          |
| <b>Investing activities</b>                                                              |                   |             |                                   |              |                  |
| Purchases of investments                                                                 | —                 | —           | (3,360,626)                       | —            | (3,360,626)      |
| Proceeds from sales of investments                                                       | —                 | —           | 2,829,523                         | —            | 2,829,523        |
| Purchases of investments to cover short sales                                            | —                 | —           | (543,936)                         | —            | (543,936)        |
| Proceeds from short sales of investments                                                 | —                 | —           | 792,344                           | —            | 792,344          |
| Change in due to/from brokers, net                                                       | —                 | —           | (6,377)                           | —            | (6,377)          |
| Decrease in securities purchased under an agreement to sell                              | —                 | —           | 29,852                            | —            | 29,852           |
| Increase in securities sold under an agreement to repurchase                             | —                 | —           | 8,944                             | —            | 8,944            |
| Change in restricted cash and cash equivalents                                           | —                 | —           | 86,392                            | —            | 86,392           |
| 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)   | 103,091                           | —            | (163,884)        |
| <b>Financing activities</b>                                                              |                   |             |                                   |              |                  |
| Proceeds from issuance of common shares, net of costs                                    | 4,332             | —           | —                                 | —            | 4,332            |
| Proceeds from issuance of senior notes payable                                           | —                 | 113,220     | —                                 | —            | 113,220          |
| Increase in deposit liabilities                                                          | —                 | —           | (65,842)                          | —            | (65,842)         |
| Change in total noncontrolling interests in related party, net                           | —                 | —           | (24,137)                          | —            | (24,137)         |
| Noncontrolling interest in Catastrophe Fund & Catastrophe Fund Manager                   | —                 | —           | (59,792)                          | —            | (59,792)         |
| Dividend received by (paid to) parent                                                    | 158,000           | —           | (158,000)                         | —            | —                |
| Net cash provided by (used in) financing activities                                      | 162,332           | 113,220     | (307,771)                         | —            | (32,219)         |
| Net increase (decrease) in cash and cash equivalents                                     | 168               | 5           | (8,500)                           | —            | (8,327)          |
| Cash and cash equivalents at beginning of year                                           | 140               | —           | 28,594                            | —            | 28,734           |
| <b>Cash and cash equivalents at end of year</b>                                          | <u>\$ 308</u>     | <u>\$ 5</u> | <u>\$ 20,094</u>                  | <u>\$ —</u>  | <u>\$ 20,407</u> |

## 26. Quarterly financial results (UNAUDITED)

|                                                                                                 | Three months ended                                    |                       |                  |                   |
|-------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------|------------------|-------------------|
|                                                                                                 | December 31,<br>2017                                  | September 30,<br>2017 | June 30,<br>2017 | March 31,<br>2017 |
|                                                                                                 | (\$ in thousands, except per share and share amounts) |                       |                  |                   |
| <b>Revenues</b>                                                                                 |                                                       |                       |                  |                   |
| Gross premiums written                                                                          | \$ 164,163                                            | \$ 174,539            | \$ 156,564       | \$ 146,354        |
| Gross premiums ceded                                                                            | 75                                                    | —                     | (1,425)          | (1,125)           |
| Net premiums written                                                                            | 164,238                                               | 174,539               | 155,139          | 145,229           |
| Change in net unearned premium reserves                                                         | (34,722)                                              | (68,564)              | 18,419           | (7,220)           |
| Net premiums earned                                                                             | 129,516                                               | 105,975               | 173,558          | 138,009           |
| Net investment income                                                                           | 67,150                                                | 88,968                | 107,325          | 128,510           |
| Total revenues                                                                                  | 196,666                                               | 194,943               | 280,883          | 266,519           |
| <b>Expenses</b>                                                                                 |                                                       |                       |                  |                   |
| Loss and loss adjustment expenses incurred, net                                                 | 99,509                                                | 77,275                | 107,379          | 85,895            |
| Acquisition costs, net                                                                          | 31,837                                                | 33,974                | 68,641           | 54,452            |
| General and administrative expenses                                                             | 14,299                                                | 13,218                | 15,014           | 10,572            |
| Other expenses                                                                                  | 3,822                                                 | 3,846                 | 2,105            | 2,901             |
| Interest expense                                                                                | 2,074                                                 | 2,074                 | 2,051            | 2,026             |
| Foreign exchange losses                                                                         | 2,067                                                 | 5,437                 | 4,781            | 15                |
| Total expenses                                                                                  | 153,608                                               | 135,824               | 199,971          | 155,861           |
| Income before income tax (expense) benefit                                                      | 43,058                                                | 59,119                | 80,912           | 110,658           |
| Income tax (expense) benefit                                                                    | 2,104                                                 | (3,475)               | (5,307)          | (5,298)           |
| <b>Net income</b>                                                                               | 45,162                                                | 55,644                | 75,605           | 105,360           |
| Net income attributable to noncontrolling interests in related party                            | (813)                                                 | (959)                 | (1,027)          | (1,174)           |
| <b>Net income available to Third Point Re common shareholders</b>                               | <u>\$ 44,349</u>                                      | <u>\$ 54,685</u>      | <u>\$ 74,578</u> | <u>\$ 104,186</u> |
| <b>Earnings per share available to Third Point Re common shareholders</b>                       |                                                       |                       |                  |                   |
| Basic earnings per share available to Third Point Re common shareholders                        | \$ 0.44                                               | \$ 0.54               | \$ 0.73          | \$ 1.00           |
| Diluted earnings per share available to Third Point Re common shareholders                      | \$ 0.42                                               | \$ 0.52               | \$ 0.71          | \$ 0.98           |
| <b>Weighted average number of common shares used in the determination of earnings per share</b> |                                                       |                       |                  |                   |
| Basic                                                                                           | 101,405,772                                           | 101,391,145           | 102,283,844      | 104,013,871       |
| Diluted                                                                                         | 105,524,115                                           | 104,679,574           | 104,569,226      | 105,701,599       |

|                                                                                                        | Three months ended                                    |                       |                  |                    |
|--------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------|------------------|--------------------|
|                                                                                                        | December 31,<br>2016                                  | September 30,<br>2016 | June 30,<br>2016 | March 31,<br>2016  |
|                                                                                                        | (\$ in thousands, except per share and share amounts) |                       |                  |                    |
| <b>Revenues</b>                                                                                        |                                                       |                       |                  |                    |
| Gross premiums written                                                                                 | \$ 80,779                                             | \$ 142,573            | \$ 196,866       | \$ 197,156         |
| Gross premiums ceded                                                                                   | 27                                                    | (927)                 | (1,425)          | —                  |
| Net premiums written                                                                                   | 80,806                                                | 141,646               | 195,441          | 197,156            |
| Change in net unearned premium reserves                                                                | 111,277                                               | (13,463)              | (62,319)         | (60,354)           |
| Net premiums earned                                                                                    | 192,083                                               | 128,183               | 133,122          | 136,802            |
| Net investment income (loss)                                                                           | (35,767)                                              | 88,356                | 86,346           | (40,110)           |
| Total revenues                                                                                         | 156,316                                               | 216,539               | 219,468          | 96,692             |
| <b>Expenses</b>                                                                                        |                                                       |                       |                  |                    |
| Loss and loss adjustment expenses incurred, net                                                        | 122,110                                               | 85,015                | 104,131          | 84,676             |
| Acquisition costs, net                                                                                 | 76,854                                                | 45,127                | 48,482           | 51,687             |
| General and administrative expenses                                                                    | 5,482                                                 | 12,354                | 10,243           | 11,288             |
| Other expenses                                                                                         | 2,161                                                 | 347                   | 3,173            | 2,706              |
| Interest expense                                                                                       | 2,068                                                 | 2,069                 | 2,046            | 2,048              |
| Foreign exchange gains                                                                                 | (5,162)                                               | (3,905)               | (8,068)          | (2,386)            |
| Total expenses                                                                                         | 203,513                                               | 141,007               | 160,007          | 150,019            |
| Income (loss) before income tax (expense) benefit                                                      | (47,197)                                              | 75,532                | 59,461           | (53,327)           |
| Income tax (expense) benefit                                                                           | 272                                                   | (2,484)               | (5,310)          | 1,929              |
| <b>Net income (loss)</b>                                                                               | <b>(46,925)</b>                                       | <b>73,048</b>         | <b>54,151</b>    | <b>(51,398)</b>    |
| Net (income) loss attributable to noncontrolling interests in related party                            | 232                                                   | (967)                 | (775)            | 269                |
| <b>Net income (loss) available to Third Point Re common shareholders</b>                               | <b>\$ (46,693)</b>                                    | <b>\$ 72,081</b>      | <b>\$ 53,376</b> | <b>\$ (51,129)</b> |
| <b>Earnings (loss) per share available to Third Point Re common shareholders</b>                       |                                                       |                       |                  |                    |
| Basic earnings (loss) per share available to Third Point Re common shareholders                        | \$ (0.45)                                             | \$ 0.69               | \$ 0.51          | \$ (0.49)          |
| Diluted earnings (loss) per share available to Third Point Re common shareholders                      | \$ (0.45)                                             | \$ 0.68               | \$ 0.51          | \$ (0.49)          |
| <b>Weighted average number of common shares used in the determination of earnings (loss) per share</b> |                                                       |                       |                  |                    |
| Basic                                                                                                  | 104,072,283                                           | 103,780,196           | 104,132,797      | 104,257,874        |
| Diluted                                                                                                | 104,072,283                                           | 105,795,313           | 105,233,921      | 104,257,874        |



**THIRD POINT REINSURANCE LTD.**  
**Schedule I - Summary of Investments - Other than Investments in Related Parties**  
**(expressed in thousands of U.S. dollars)**

|                                     | Cost         | Fair value   | Balance sheet value |
|-------------------------------------|--------------|--------------|---------------------|
| <b>Assets</b>                       |              |              |                     |
| Equity securities                   | \$ 1,822,021 | \$ 2,221,130 | \$ 2,221,130        |
| Private common equity securities    | 4,445        | 4,794        | 4,794               |
| Private preferred equity securities | 42,269       | 57,126       | 57,126              |
| Total equities                      | 1,868,735    | 2,283,050    | 2,283,050           |
| Asset-backed securities             | 249,254      | 225,499      | 225,499             |
| Bank debt                           | 14,377       | 14,550       | 14,550              |
| Corporate bonds                     | 78,794       | 77,086       | 77,086              |
| U.S. Treasury securities            | 253,746      | 249,994      | 249,994             |
| Sovereign debt                      | 109,786      | 102,569      | 102,569             |
| Other debt securities               | 5,365        | 5,460        | 5,460               |
| Total debt securities               | 711,322      | 675,158      | 675,158             |
| Investments in limited partnerships | 11,090       | 17,008       | 17,008              |
| Options                             | 5,123        | 4,951        | 4,951               |
| Rights and warrants                 | —            | 603          | 603                 |
| Real estate                         | 6,770        | 6,831        | 6,831               |
| Trade claims                        | 998          | 7,496        | 7,496               |
| Investment in Kiskadee Fund         | 1,661        | 842          | 842                 |
| Total other investments             | 25,642       | 37,731       | 37,731              |
| Total investments                   | \$ 2,605,699 | \$ 2,995,939 | \$ 2,995,939        |

**THIRD POINT REINSURANCE LTD.**  
**Schedule III - Supplementary Insurance Information**  
**For the years ended December 31, 2017, 2016 and 2015**  
**(expressed in thousands of U.S. dollars)**

As of and for the year ended December 31, 2017

|                                         | Deferred<br>acquisition<br>costs, net | Loss and<br>loss<br>adjustment<br>expense<br>reserves | Unearned<br>premium | Net<br>premiums<br>earned | Net<br>investment<br>income | Other<br>expenses | Loss and<br>loss<br>adjustment<br>expenses<br>incurred,<br>net | Amortization<br>of deferred<br>acquisition<br>costs, net | Other<br>operating<br>expenses | Net<br>premiums<br>written |
|-----------------------------------------|---------------------------------------|-------------------------------------------------------|---------------------|---------------------------|-----------------------------|-------------------|----------------------------------------------------------------|----------------------------------------------------------|--------------------------------|----------------------------|
| Property and<br>Casualty<br>Reinsurance | \$ 258,793                            | \$ 720,570                                            | \$ 649,518          | \$ 547,058                | \$ 114,435                  | \$ 12,674         | \$ 370,058                                                     | \$ 188,904                                               | \$ 30,656                      | \$ 639,145                 |
| Catastrophe<br>Risk<br>Management       | —                                     | —                                                     | —                   | —                         | —                           | —                 | —                                                              | —                                                        | —                              | —                          |
| Corporate                               | —                                     | —                                                     | —                   | —                         | 277,518                     | —                 | —                                                              | —                                                        | 22,447                         | —                          |
|                                         | \$ 258,793                            | \$ 720,570                                            | \$ 649,518          | \$ 547,058                | \$ 391,953                  | \$ 12,674         | \$ 370,058                                                     | \$ 188,904                                               | \$ 53,103                      | \$ 639,145                 |

As of and for the year ended December 31, 2016

|                                         | Deferred<br>acquisition<br>costs, net | Loss and<br>loss<br>adjustment<br>expense<br>reserves | Unearned<br>premium | Net<br>premiums<br>earned | Net<br>investment<br>income | Other<br>expenses | Loss and<br>loss<br>adjustment<br>expenses<br>incurred,<br>net | Amortization<br>of deferred<br>acquisition<br>costs, net | Other<br>operating<br>expenses | Net<br>premiums<br>written |
|-----------------------------------------|---------------------------------------|-------------------------------------------------------|---------------------|---------------------------|-----------------------------|-------------------|----------------------------------------------------------------|----------------------------------------------------------|--------------------------------|----------------------------|
| Property and<br>Casualty<br>Reinsurance | \$ 221,618                            | \$ 605,129                                            | \$ 557,076          | \$ 590,190                | \$ 16,931                   | \$ 8,387          | \$ 395,932                                                     | \$ 222,150                                               | \$ 22,160                      | \$ 615,049                 |
| Catastrophe<br>Risk<br>Management       | —                                     | —                                                     | —                   | —                         | —                           | —                 | —                                                              | —                                                        | —                              | —                          |
| Corporate                               | —                                     | —                                                     | —                   | —                         | 81,894                      | —                 | —                                                              | —                                                        | 17,207                         | —                          |
|                                         | \$ 221,618                            | \$ 605,129                                            | \$ 557,076          | \$ 590,190                | \$ 98,825                   | \$ 8,387          | \$ 395,932                                                     | \$ 222,150                                               | \$ 39,367                      | \$ 615,049                 |

As of and for the year ended December 31, 2015

|                                         | Deferred<br>acquisition<br>costs, net | Loss and<br>loss<br>adjustment<br>expense<br>reserves | Unearned<br>premium | Net<br>premiums<br>earned | Net<br>investment<br>income<br>(loss) | Other<br>expenses | Loss and<br>loss<br>adjustment<br>expenses<br>incurred,<br>net | Amortization<br>of deferred<br>acquisition<br>costs, net | Other<br>operating<br>expenses | Net<br>premiums<br>written |
|-----------------------------------------|---------------------------------------|-------------------------------------------------------|---------------------|---------------------------|---------------------------------------|-------------------|----------------------------------------------------------------|----------------------------------------------------------|--------------------------------|----------------------------|
| Property and<br>Casualty<br>Reinsurance | \$ 197,093                            | \$ 466,047                                            | \$ 531,710          | \$ 602,816                | \$ (10,810)                           | \$ 8,614          | \$ 415,041                                                     | \$ 191,217                                               | \$ 24,815                      | \$ 700,582                 |
| Catastrophe<br>Risk<br>Management       | —                                     | —                                                     | —                   | 8                         | 69                                    | —                 | 150                                                            | (1)                                                      | 447                            | (44)                       |
| Corporate                               | —                                     | —                                                     | —                   | —                         | (17,333)                              | —                 | —                                                              | —                                                        | 20,771                         | —                          |
|                                         | \$ 197,093                            | \$ 466,047                                            | \$ 531,710          | \$ 602,824                | \$ (28,074)                           | \$ 8,614          | \$ 415,191                                                     | \$ 191,216                                               | \$ 46,033                      | \$ 700,538                 |

**THIRD POINT REINSURANCE LTD.**  
**Schedule IV - Reinsurance**  
**For the years ended December 31, 2017, 2016 and 2015**  
**(expressed in thousands of U.S. dollars)**

|                              | Direct gross<br>premiums<br>written | Ceded to other<br>companies | Assumed from<br>other companies | Net amount | Percentage of<br>amount assumed<br>to net |
|------------------------------|-------------------------------------|-----------------------------|---------------------------------|------------|-------------------------------------------|
| Year ended December 31, 2017 | \$ —                                | \$ 2,475                    | \$ 641,620                      | \$ 639,145 | 100%                                      |
| Year ended December 31, 2016 | \$ —                                | \$ 2,325                    | \$ 617,374                      | \$ 615,049 | 100%                                      |
| Year ended December 31, 2015 | \$ —                                | \$ 1,876                    | \$ 702,414                      | \$ 700,538 | 100%                                      |