

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

**FORM 10-Q**

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-35039

**THIRD POINT REINSURANCE LTD.**

(Exact name of registrant as specified in its charter)

Bermuda

98-1039994

(State or other jurisdiction of incorporation or organization)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). 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 | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |
|                         |                                     | Emerging growth company   | <input type="checkbox"/> |

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 registrant's common shares began trading on the New York Stock Exchange on August 15, 2013 under the symbol "TPRE".

As of May 6, 2019, there were 94,347,762 common shares of the registrant's common shares issued and outstanding, including 2,566,925 restricted shares.

**Third Point Reinsurance Ltd.**

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**PART I - Financial Information**

**ITEM 1. Financial Statements**

**THIRD POINT REINSURANCE LTD.  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
As of March 31, 2019 and December 31, 2018  
(expressed in thousands of U.S. dollars, except per share and share amounts)**

|                                                                                                     | <b>March 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|-----------------------------------------------------------------------------------------------------|---------------------------|------------------------------|
| <b>Assets</b>                                                                                       |                           |                              |
| Investment in related party investment fund, at fair value (cost - \$1,609,850; 2018 - \$1,564,850) | \$ 1,475,995              | \$ 1,284,004                 |
| Debt securities, trading, at fair value (cost - \$252,084; 2018 - \$252,362)                        | 241,059                   | 239,640                      |
| Other investments, at fair value                                                                    | 3,087                     | 84                           |
| <b>Total investments</b>                                                                            | <b>1,720,141</b>          | <b>1,523,728</b>             |
| Cash and cash equivalents                                                                           | 54,319                    | 104,183                      |
| Restricted cash and cash equivalents                                                                | 616,844                   | 609,154                      |
| Subscription receivable from related party investment fund                                          | 15,000                    | —                            |
| Due from brokers                                                                                    | 637                       | 1,411                        |
| Interest and dividends receivable                                                                   | 1,891                     | 1,316                        |
| Reinsurance balances receivable                                                                     | 758,816                   | 602,448                      |
| Deferred acquisition costs, net                                                                     | 233,108                   | 203,842                      |
| Unearned premiums ceded                                                                             | 16,139                    | 17,552                       |
| Loss and loss adjustment expenses recoverable                                                       | 2,751                     | 2,031                        |
| Other assets                                                                                        | 20,488                    | 20,569                       |
| <b>Total assets</b>                                                                                 | <b>\$ 3,440,134</b>       | <b>\$ 3,086,234</b>          |
| <b>Liabilities</b>                                                                                  |                           |                              |
| Accounts payable and accrued expenses                                                               | \$ 9,225                  | \$ 7,261                     |
| Reinsurance balances payable                                                                        | 76,766                    | 69,701                       |
| Deposit liabilities                                                                                 | 144,782                   | 145,342                      |
| Unearned premium reserves                                                                           | 767,352                   | 602,936                      |
| Loss and loss adjustment expense reserves                                                           | 986,639                   | 937,157                      |
| Participation agreement with related party investment fund                                          | 1,521                     | 2,297                        |
| Interest and dividends payable                                                                      | 1,015                     | 3,055                        |
| Senior notes payable, net of deferred costs                                                         | 113,955                   | 113,911                      |
| <b>Total liabilities</b>                                                                            | <b>2,101,255</b>          | <b>1,881,660</b>             |
| Commitments and contingent liabilities                                                              |                           |                              |
| <b>Shareholders' equity</b>                                                                         |                           |                              |
| Preference shares (par value \$0.10; authorized, 30,000,000; none issued)                           | —                         | —                            |
| Common shares (issued and outstanding: 94,292,914; 2018 - 93,639,610)                               | 9,429                     | 9,364                        |
| Additional paid-in capital                                                                          | 920,207                   | 918,882                      |
| Retained earnings                                                                                   | 409,243                   | 276,328                      |
| <b>Shareholders' equity attributable to Third Point Re common shareholders</b>                      | <b>1,338,879</b>          | <b>1,204,574</b>             |
| <b>Total liabilities and shareholders' equity</b>                                                   | <b>\$ 3,440,134</b>       | <b>\$ 3,086,234</b>          |

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

**THIRD POINT REINSURANCE LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)**  
For the three months ended March 31, 2019 and 2018  
(expresses in thousands of U.S. dollars, except per share and share amounts)

|                                                                                                        | 2019              | 2018               |
|--------------------------------------------------------------------------------------------------------|-------------------|--------------------|
| <b>Revenues</b>                                                                                        |                   |                    |
| Gross premiums written                                                                                 | \$ 319,591        | \$ 378,360         |
| Gross premiums ceded                                                                                   | (712)             | (14,646)           |
| Net premiums written                                                                                   | 318,879           | 363,714            |
| Change in net unearned premium reserves                                                                | (165,829)         | (221,228)          |
| Net premiums earned                                                                                    | 153,050           | 142,486            |
| Net investment income from investment in related party investment fund                                 | 146,991           | —                  |
| Net investment income before management and performance fees to related parties                        | 7,962             | 7,839              |
| Management and performance fees to related parties (1)                                                 | —                 | (10,047)           |
| Net investment income (loss)                                                                           | 154,953           | (2,208)            |
| Total revenues                                                                                         | 308,003           | 140,278            |
| <b>Expenses</b>                                                                                        |                   |                    |
| Loss and loss adjustment expenses incurred, net                                                        | 95,068            | 92,620             |
| Acquisition costs, net                                                                                 | 57,498            | 51,405             |
| General and administrative expenses                                                                    | 12,132            | 9,481              |
| Other expenses                                                                                         | 4,125             | 3,995              |
| Interest expense                                                                                       | 2,029             | 2,029              |
| Foreign exchange losses                                                                                | 2,518             | 6,611              |
| Total expenses                                                                                         | 173,370           | 166,141            |
| Income (loss) before income tax expense                                                                | 134,633           | (25,863)           |
| Income tax expense                                                                                     | (1,718)           | (128)              |
| <b>Net income (loss)</b>                                                                               | 132,915           | (25,991)           |
| Net income attributable to noncontrolling interests in related party                                   | —                 | (10)               |
| <b>Net income (loss) available to Third Point Re common shareholders</b>                               | <u>\$ 132,915</u> | <u>\$ (26,001)</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                        | \$ 1.45           | \$ (0.26)          |
| Diluted earnings (loss) per share available to Third Point Re common shareholders                      | \$ 1.43           | \$ (0.26)          |
| <b>Weighted average number of common shares used in the determination of earnings (loss) per share</b> |                   |                    |
| Basic                                                                                                  | 91,669,810        | 101,195,747        |
| Diluted                                                                                                | 92,578,933        | 101,195,747        |

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

(1) Effective August 31, 2018, Third Point Reinsurance Ltd., Third Point Reinsurance Company Ltd. (“Third Point Re BDA”) and Third Point Reinsurance (USA) Ltd. (“Third Point Re USA”) and together with Third Point Re BDA, the “TPRE Limited Partners”, entered into a Limited Partnership Agreement (the “2018 LPA”) to invest in Third Point Enhanced LP (“TP Fund”), a related party investment fund. As a result, the management and performance fees are presented within net investment income from investment in related party investment fund from the effective date of the 2018 LPA. Management and performance fees incurred prior to the effective date of the 2018 LPA are reflected in management and performance fees to related parties.

**THIRD POINT REINSURANCE LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**  
For the three months ended March 31, 2019 and 2018  
(expressed in thousands of U.S. dollars)

|                                                                                | 2019         | 2018         |
|--------------------------------------------------------------------------------|--------------|--------------|
| <b>Common shares</b>                                                           |              |              |
| Balance, beginning of period                                                   | \$ 9,364     | \$ 10,723    |
| Issuance of common shares, net                                                 | 65           | 59           |
| Common shares repurchased and retired                                          | —            | (558)        |
| Balance, end of period                                                         | 9,429        | 10,224       |
| <b>Treasury shares</b>                                                         |              |              |
| Balance, beginning of period                                                   | —            | (48,253)     |
| Retirement of treasury shares                                                  | —            | 48,253       |
| Balance, end of period                                                         | —            | —            |
| <b>Additional paid-in capital</b>                                              |              |              |
| Balance, beginning of period                                                   | 918,882      | 1,099,599    |
| Issuance of common shares, net                                                 | (133)        | (133)        |
| Share compensation expense                                                     | 1,458        | 1,245        |
| Common shares repurchased and retired                                          | —            | (71,532)     |
| Balance, end of period                                                         | 920,207      | 1,029,179    |
| <b>Retained earnings</b>                                                       |              |              |
| Balance, beginning of period                                                   | 276,328      | 594,020      |
| Net income (loss)                                                              | 132,915      | (25,991)     |
| Net income attributable to noncontrolling interests in related party           | —            | (10)         |
| Balance, end of period                                                         | 409,243      | 568,019      |
| <b>Shareholders' equity attributable to Third Point Re common shareholders</b> | 1,338,879    | 1,607,422    |
| Noncontrolling interests in related party                                      | —            | 5,089        |
| <b>Total shareholders' equity</b>                                              | \$ 1,338,879 | \$ 1,612,511 |

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

**THIRD POINT REINSURANCE LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**For the three months ended March 31, 2019 and 2018**  
**(expressed in thousands of U.S. dollars)**

|                                                                                                    | 2019              | 2018              |
|----------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>Operating activities</b>                                                                        |                   |                   |
| Net income (loss)                                                                                  | \$ 132,915        | \$ (25,991)       |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                   |                   |
| Share compensation expense                                                                         | 1,458             | 1,245             |
| Net interest expense on deposit liabilities                                                        | 1,500             | 1,261             |
| Net realized and unrealized gain on investments and derivatives                                    | (1,692)           | (2,830)           |
| Net realized and unrealized gain on investment in related party investment fund                    | (146,991)         | —                 |
| Net foreign exchange losses                                                                        | 2,518             | 6,611             |
| Amortization of premium and accretion of discount, net                                             | 322               | 2,622             |
| <b>Changes in assets and liabilities:</b>                                                          |                   |                   |
| Reinsurance balances receivable                                                                    | (154,205)         | (208,414)         |
| Deferred acquisition costs, net                                                                    | (29,266)          | (50,110)          |
| Unearned premiums ceded                                                                            | 1,413             | (14,012)          |
| Loss and loss adjustment expenses recoverable                                                      | (720)             | (219)             |
| Other assets                                                                                       | 415               | (559)             |
| Interest and dividends receivable, net                                                             | (2,615)           | (1,619)           |
| Unearned premium reserves                                                                          | 164,416           | 235,240           |
| Loss and loss adjustment expense reserves                                                          | 44,838            | 34,392            |
| Accounts payable and accrued expenses                                                              | 1,964             | (23,382)          |
| Reinsurance balances payable                                                                       | 6,720             | 9,025             |
| Performance fee payable to related party                                                           | —                 | 20                |
| Net cash provided by (used in) operating activities                                                | 22,990            | (36,720)          |
| <b>Investing activities</b>                                                                        |                   |                   |
| Proceeds from redemptions from related party investment fund                                       | 10,000            | —                 |
| Contributions to related party investment fund, including subscription receivable                  | (70,000)          | —                 |
| Change in participation agreement with related party investment fund                               | (776)             | —                 |
| Purchases of investments                                                                           | (3,000)           | (1,032,890)       |
| Proceeds from sales and maturities of investments                                                  | —                 | 1,221,157         |
| Purchases of investments to cover short sales                                                      | —                 | (300,467)         |
| Proceeds from short sales of investments                                                           | —                 | 277,174           |
| Change in due to/from brokers, net                                                                 | 774               | 8,818             |
| Decrease in securities sold under an agreement to repurchase                                       | —                 | (10,551)          |
| Net cash provided by (used in) investing activities                                                | (63,002)          | 163,241           |
| <b>Financing activities</b>                                                                        |                   |                   |
| Taxes paid on withholding shares                                                                   | (68)              | (74)              |
| Purchases of Third Point Re common shares under share repurchase program                           | —                 | (23,837)          |
| Decrease in deposit liabilities, net                                                               | (2,094)           | (614)             |
| Change in total noncontrolling interests in related party, net                                     | —                 | (101,746)         |
| Net cash used in financing activities                                                              | (2,162)           | (126,271)         |
| Net increase (decrease) in cash, cash equivalents and restricted cash                              | (42,174)          | 250               |
| Cash, cash equivalents and restricted cash at beginning of period                                  | 713,337           | 549,333           |
| <b>Cash, cash equivalents and restricted cash at end of period</b>                                 | <b>\$ 671,163</b> | <b>\$ 549,583</b> |
| <b>Supplementary information</b>                                                                   |                   |                   |
| Interest paid in cash                                                                              | \$ 4,025          | \$ 8,523          |
| Income taxes paid in cash                                                                          | \$ —              | \$ 1,226          |

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

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

**1. Organization**

Third Point Reinsurance Ltd. (together with its consolidated 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 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 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.

These unaudited condensed consolidated financial statements include the results of the Company and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 in Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. This Quarterly Report should be read in conjunction with the audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Form 10-K”), as filed with the U.S. Securities and Exchange Commission on February 28, 2019.

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

The results for the three months ended March 31, 2019 are not necessarily indicative of the results expected for the full calendar year.

Tabular amounts are in U.S. Dollars in thousands, except share amounts, unless otherwise noted.

**2. Significant accounting policies**

There have been no material changes to the Company’s significant accounting policies as described in its 2018 Form 10-K.

**Recently issued accounting standards**

***Issued and effective as of March 31, 2019***

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 requires 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. ASU 2016-02 did not have a material impact on the Company’s condensed consolidated financial statements as a result of the limited number of leases the Company currently has in place.

In July 2018, the FASB issued Accounting Standards Update 2018-10, *Codification Improvements to Topic 842, Leases* (“ASU 2018-10”) and Accounting Standards Update 2018-11, *Leases (Topic 842): Targeted improvements* (ASU 2018-11). These updates make improvements to clarify or to correct unintended application of guidance in ASC 842 and did not have a significant effect on the Company.

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, there was no impact to the Company’s condensed consolidated financial statements.

### 3. Cash, cash equivalents, restricted cash and restricted investments

The following table provides a summary of cash and cash equivalents, restricted cash and restricted investments as of March 31, 2019 and December 31, 2018:

|                                                                          | March 31,<br>2019 | December 31,<br>2018 |
|--------------------------------------------------------------------------|-------------------|----------------------|
| Cash and cash equivalents                                                | \$ 54,319         | \$ 104,183           |
| Restricted cash securing letter of credit facilities (1)                 | 208,480           | 203,953              |
| Restricted cash securing reinsurance contracts (2)                       | 408,364           | 405,201              |
| Total cash, cash equivalents and restricted cash (3)                     | 671,163           | 713,337              |
| Restricted investments securing reinsurance contracts (2)                | 241,059           | 239,640              |
| Total cash, cash equivalents, restricted cash and restricted investments | <u>\$ 912,222</u> | <u>\$ 952,977</u>    |

- (1) Restricted cash securing letter of credit facilities primarily pertains to letters of credit that have been issued to the Company’s clients in support of our obligations under reinsurance contracts. The Company will not be released from the obligation to provide these letters of credit until the reserves underlying the reinsurance contracts have been settled. The time period for which the Company expects each letter of credit to be in place varies from contract to contract but can last several years.
- (2) Restricted cash and restricted investments securing 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 the 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.
- (3) Cash, cash equivalents and restricted cash as reported in the Company’s condensed consolidated statements of cash flows.

### 4. Investments

Effective August 31, 2018, Third Point Re, Third Point Re BDA and Third Point Re USA entered into a Limited Partnership Agreement (the “2018 LPA”) to invest in Third Point Enhanced LP (“TP Fund”), a related party investment fund. As a result, substantially all assets and related liabilities were transferred from the Company’s separate accounts to TP Fund and Third Point Re BDA and Third Point Re USA received limited partnership interests in TP Fund in exchange. Third Point Re BDA and Third Point Re USA no longer directly hold their invested assets and liabilities but instead, hold an investment in TP Fund. For additional details regarding the Company’s change in its investment account structure, see Note 4 to the Company’s consolidated financial statements filed with the 2018 Form 10-K.



The Company's investments primarily consist of an investment in TP Fund and certain collateral assets consisting of debt securities and restricted cash. Third Point LLC is the investment manager of TP Fund and the Company's collateral assets. The following is a summary of the net investments managed by Third Point LLC as of March 31, 2019 and December 31, 2018:

|                                                                          | March 31,<br>2019   | December 31,<br>2018 |
|--------------------------------------------------------------------------|---------------------|----------------------|
| <b>Assets</b>                                                            |                     |                      |
| Total investments, including investment in related party investment fund | \$ 1,717,054        | \$ 1,523,644         |
| Cash and cash equivalents                                                | 3,647               | 1,017                |
| Restricted cash and cash equivalents                                     | 616,844             | 609,154              |
| Due from brokers                                                         | 637                 | 1,411                |
| Interest and dividends receivable                                        | 1,891               | 1,316                |
| <b>Total assets</b>                                                      | <b>2,340,073</b>    | <b>2,136,542</b>     |
| <b>Liabilities</b>                                                       |                     |                      |
| Accounts payable and accrued expenses                                    | 188                 | 114                  |
| Participation agreement with related party investment fund               | 1,521               | 2,297                |
| <b>Total liabilities</b>                                                 | <b>1,709</b>        | <b>2,411</b>         |
| <b>Total net investments managed by Third Point LLC</b>                  | <b>\$ 2,338,364</b> | <b>\$ 2,134,131</b>  |

The TP Fund investment strategy, as implemented by Third Point LLC, 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.

The Company's investment in TP Fund has been presented on the condensed consolidated balance sheets as an investment in related party investment fund. The collateral assets are presented in the condensed consolidated balance sheets within debt securities and restricted cash and are considered as part of total net investments managed by Third Point LLC.

## 5. Fair value measurements

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.

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

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

The following tables present the Company's investments, categorized by the level of the fair value hierarchy as of March 31, 2019 and December 31, 2018:

| March 31, 2019                      |                                                 |                                                        |                                                    |                     |
|-------------------------------------|-------------------------------------------------|--------------------------------------------------------|----------------------------------------------------|---------------------|
|                                     | 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>                       |                                                 |                                                        |                                                    |                     |
| Private preferred equity securities | \$ —                                            | \$ —                                                   | \$ 3,000                                           | \$ 3,000            |
| Total equities                      | —                                               | —                                                      | 3,000                                              | 3,000               |
| U.S. Treasury securities            | —                                               | 198,158                                                | —                                                  | 198,158             |
| Sovereign debt                      | —                                               | 42,901                                                 | —                                                  | 42,901              |
| Total debt securities               | —                                               | 241,059                                                | —                                                  | 241,059             |
|                                     | <u>\$ —</u>                                     | <u>\$ 241,059</u>                                      | <u>\$ 3,000</u>                                    | <u>244,059</u>      |
| Investments in funds valued at NAV  |                                                 |                                                        |                                                    | 1,476,082           |
| <b>Total assets</b>                 |                                                 |                                                        |                                                    | <u>\$ 1,720,141</u> |
| <b>Liabilities</b>                  |                                                 |                                                        |                                                    |                     |
| Derivative liabilities (embedded)   | \$ —                                            | \$ —                                                   | \$ 32                                              | \$ 32               |
| <b>Total liabilities</b>            | <u>\$ —</u>                                     | <u>\$ —</u>                                            | <u>\$ 32</u>                                       | <u>\$ 32</u>        |
| December 31, 2018                   |                                                 |                                                        |                                                    |                     |
|                                     | 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>                       |                                                 |                                                        |                                                    |                     |
| U.S. Treasury securities            | \$ —                                            | \$ 197,312                                             | \$ —                                               | \$ 197,312          |
| Sovereign debt                      | —                                               | 42,328                                                 | —                                                  | 42,328              |
| Total debt securities               | <u>\$ —</u>                                     | <u>\$ 239,640</u>                                      | <u>\$ —</u>                                        | <u>239,640</u>      |
| Investments in funds valued at NAV  |                                                 |                                                        |                                                    | 1,284,088           |
| <b>Total assets</b>                 |                                                 |                                                        |                                                    | <u>\$ 1,523,728</u> |
| <b>Liabilities</b>                  |                                                 |                                                        |                                                    |                     |
| Derivative liabilities (embedded)   | \$ —                                            | \$ —                                                   | \$ 22                                              | \$ 22               |
| <b>Total liabilities</b>            | <u>\$ —</u>                                     | <u>\$ —</u>                                            | <u>\$ 22</u>                                       | <u>\$ 22</u>        |

The total change in unrealized gains (losses) on equity and debt securities held at the three months ended March 31, 2019 were \$nil and \$1.4 million, respectively (2018 - \$(23.9) million and \$(0.6) million, respectively).

### ***Private preferred equity securities***

Private preferred equity securities are those not registered for public sale and are carried at an estimated fair value at the end of the period. Valuation techniques used 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.

### ***Debt securities***

U.S. Treasury securities and sovereign debt securities are primarily priced by obtaining broker dealer quotes and other market information including actual trade volumes, when available. When evaluating these securities, the pricing services gather information from market sources and integrate other observations from markets and sector news. The fair value of each security is individually computed using analytical models which incorporate option adjusted spreads and other daily interest rate data. As the significant inputs used to price these securities are observable, the fair values of these investments are classified as Level 2.

### ***Investments in funds valued at NAV***

The Company values its investments in limited partnerships, including its investment in related party investment fund, at fair value. The Company has elected the practical expedient for fair value for these investments which is estimated based on the Company's share of the net asset value ("NAV") of the limited partnerships, as provided by the independent fund administrator, as the Company believes it represents the most meaningful measurement basis for the investment assets and liabilities. The NAV represents the Company's proportionate interest in the members' equity of the limited partnerships. The resulting net gains or net losses are reflected in the condensed 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.

In order to assess the reasonableness of the NAVs, the Company performs a number of monitoring procedures on a monthly, quarterly and annual basis, to assess the quality of the information provided by the Investment Manager and fund administrator underlying the preparation of the NAV. These procedures include, but are not limited to, regular review and discussion of the fund's performance with the investment manager. However, the Company often does not have access to financial information relating to the underlying securities held within the TP Fund. Therefore, management is often unable to corroborate the fair values placed on the securities underlying the asset valuations provided by the Investment Manager or fund administrator.

### ***Embedded derivatives***

The Company has derivatives embedded in non-derivative host contracts that are required to be separated from the host contracts and accounted for at fair value with changes in fair value of the embedded derivative reported in other expenses. The Company's embedded derivatives relate to interest crediting features in certain reinsurance and deposit contracts that vary based on the returns on the Company's investments managed by Third Point LLC. The Company determines the fair value of the embedded derivatives using models developed by the Company. As the significant inputs used to price embedded derivatives are unobservable, these are classified as level 3.

The following table presents the reconciliation of all investments measured at fair value using Level 3 inputs for the three months ended March 31, 2019 and 2018:

|                                        | January 1,<br>2019 | Transfers in<br>to (out of)<br>Level 3 | Purchases        | Sales              | Realized and<br>Unrealized<br>Gains<br>(Losses) <sup>(1)</sup> | March 31,<br>2019 |
|----------------------------------------|--------------------|----------------------------------------|------------------|--------------------|----------------------------------------------------------------|-------------------|
| <b>Assets</b>                          |                    |                                        |                  |                    |                                                                |                   |
| Private preferred equity securities    | \$ —               | \$ —                                   | \$ 3,000         | \$ —               | \$ —                                                           | \$ 3,000          |
| <b>Total assets</b>                    | <u>\$ —</u>        | <u>\$ —</u>                            | <u>\$ 3,000</u>  | <u>\$ —</u>        | <u>\$ —</u>                                                    | <u>\$ 3,000</u>   |
| <b>Liabilities</b>                     |                    |                                        |                  |                    |                                                                |                   |
| Derivative liabilities (embedded)      | \$ (22)            | \$ —                                   | \$ —             | \$ —               | \$ (10)                                                        | \$ (32)           |
| <b>Total liabilities</b>               | <u>\$ (22)</u>     | <u>\$ —</u>                            | <u>\$ —</u>      | <u>\$ —</u>        | <u>\$ (10)</u>                                                 | <u>\$ (32)</u>    |
|                                        | January 1,<br>2018 | Transfers in<br>to (out of)<br>Level 3 | Purchases        | Sales              | Realized and<br>Unrealized<br>Gains<br>(Losses) <sup>(1)</sup> | March 31,<br>2018 |
| <b>Assets</b>                          |                    |                                        |                  |                    |                                                                |                   |
| Private common equity securities       | \$ 4,794           | \$ —                                   | \$ —             | \$ —               | \$ (442)                                                       | \$ 4,352          |
| Private preferred equity securities    | 57,126             | —                                      | 161              | (15)               | (2,041)                                                        | 55,231            |
| Asset-backed securities                | 27,308             | 1,839                                  | 12,197           | (12,446)           | (1,642)                                                        | 27,256            |
| Corporate bonds                        | 9,868              | —                                      | 20               | —                  | 193                                                            | 10,081            |
| Other debt securities                  | 713                | —                                      | —                | (892)              | 179                                                            | —                 |
| Rights and warrants                    | 435                | —                                      | 582              | (204)              | 6                                                              | 819               |
| Real estate                            | 6,831              | —                                      | —                | (153)              | 259                                                            | 6,937             |
| <b>Total assets</b>                    | <u>\$ 107,075</u>  | <u>\$ 1,839</u>                        | <u>\$ 12,960</u> | <u>\$ (13,710)</u> | <u>\$ (3,488)</u>                                              | <u>\$ 104,676</u> |
| <b>Liabilities</b>                     |                    |                                        |                  |                    |                                                                |                   |
| Derivative liabilities (free standing) | \$ (2,085)         | \$ —                                   | \$ —             | \$ —               | \$ 89                                                          | \$ (1,996)        |
| Derivative liabilities (embedded)      | (171)              | —                                      | —                | —                  | 47                                                             | (124)             |
| <b>Total liabilities</b>               | <u>\$ (2,256)</u>  | <u>\$ —</u>                            | <u>\$ —</u>      | <u>\$ —</u>        | <u>\$ 136</u>                                                  | <u>\$ (2,120)</u> |

(1) Total change in realized and unrealized gains (losses) recorded on Level 3 financial instruments is included in net investment income (loss) in the condensed consolidated statements of income (loss). Realized and unrealized gains (losses) related to embedded derivatives are included in other expenses in the condensed consolidated statements of income (loss).

Total change in unrealized gains (losses) on fair value of assets using significant unobservable inputs (Level 3) held at the three months ended March 31, 2019 was \$nil (2018 - \$(4.0) million).

For the three months ended March 31, 2019 and 2018, there were no changes in the valuation techniques as they relate to the above.

## 6. Derivatives

Prior to the change in the Company's investment account structure described in Note 4, the Company entered into derivative contracts. The following table sets forth, by major risk type, the Company's realized and unrealized gains (losses) relating to derivatives for the three months ended March 31, 2018. Realized and unrealized gains (losses) related to free standing derivatives are included in net investment income (loss) in the condensed consolidated statements of income (loss). Realized and unrealized gains (losses) related to embedded derivatives are included in other expenses in the condensed consolidated statements of income (loss).

| Free standing Derivatives - Primary Underlying Risk | 2019                 |                        | 2018                 |                        |
|-----------------------------------------------------|----------------------|------------------------|----------------------|------------------------|
|                                                     | Realized Gain (Loss) | Unrealized Gain (Loss) | Realized Gain (Loss) | Unrealized Gain (Loss) |
| <b>Credit</b>                                       |                      |                        |                      |                        |
| Credit Default Swaps - Protection Purchased         | \$ —                 | \$ —                   | \$ (1,248)           | \$ 559                 |
| Credit Default Swaps - Protection Sold              | —                    | —                      | 848                  | (761)                  |
| Total Return Swaps - Long Contracts                 | —                    | —                      | 442                  | 805                    |
| <b>Equity Price</b>                                 |                      |                        |                      |                        |
| Contracts for Differences - Long Contracts          | —                    | —                      | 14,200               | (8,578)                |
| Contracts for Differences - Short Contracts         | —                    | —                      | 4,060                | (81)                   |
| Total Return Swaps - Long Contracts                 | —                    | —                      | 19,191               | (15,077)               |
| Total Return Swaps - Short Contracts                | —                    | —                      | (6,856)              | 1,765                  |
| <b>Interest Rates</b>                               |                      |                        |                      |                        |
| Interest Rate Swaptions                             | —                    | —                      | —                    | (221)                  |
| Sovereign Futures - Short Contracts                 | —                    | —                      | (1)                  | (24)                   |
| <b>Foreign Currency Exchange Rates</b>              |                      |                        |                      |                        |
| Foreign Currency Forward Contracts                  | —                    | —                      | (13,816)             | 2,665                  |
| Foreign Currency Options - Purchased                | —                    | —                      | —                    | (576)                  |
| Foreign Currency Options - Sold                     | —                    | —                      | —                    | 83                     |
|                                                     | <u>\$ —</u>          | <u>\$ —</u>            | <u>\$ 16,820</u>     | <u>\$ (19,441)</u>     |
| <b>Embedded Derivatives</b>                         |                      |                        |                      |                        |
| Embedded derivatives in reinsurance contracts       | \$ —                 | \$ (10)                | \$ —                 | \$ 47                  |
| <b>Total Derivative Liabilities (embedded)</b>      | <u>\$ —</u>          | <u>\$ (10)</u>         | <u>\$ —</u>          | <u>\$ 47</u>           |

## 7. Loss and loss adjustment expense reserves

As of March 31, 2019 and December 31, 2018, loss and loss adjustment expense reserves in the condensed consolidated balance sheets was comprised of the following:

|                                                                     | March 31, 2019    | December 31, 2018 |
|---------------------------------------------------------------------|-------------------|-------------------|
| Case loss and loss adjustment expense reserves                      | \$ 127,827        | \$ 125,456        |
| Incurred but not reported loss and loss adjustment expense reserves | 858,107           | 811,280           |
| Deferred gains on retroactive reinsurance contracts                 | 705               | 421               |
|                                                                     | <u>\$ 986,639</u> | <u>\$ 937,157</u> |

The following table represents the activity in the loss and loss adjustment expense reserves for the three months ended March 31, 2019 and 2018:

|                                                                                                          | 2019       | 2018       |
|----------------------------------------------------------------------------------------------------------|------------|------------|
| Gross reserves for loss and loss adjustment expenses, beginning of period                                | \$ 937,157 | \$ 720,570 |
| Less: loss and loss adjustment expenses recoverable, beginning of period                                 | (2,031)    | (1,113)    |
| Less: deferred charges on retroactive reinsurance contracts                                              | (3,847)    | —          |
| Net reserves for loss and loss adjustment expenses, beginning of period                                  | 931,279    | 719,457    |
| Increase (decrease) in net loss and loss adjustment expenses incurred in respect of losses occurring in: |            |            |
| Current year                                                                                             | 97,794     | 75,759     |
| Prior years                                                                                              | (2,726)    | 16,861     |
| Total incurred loss and loss adjustment expenses                                                         | 95,068     | 92,620     |
| Net loss and loss adjustment expenses paid in respect of losses occurring in:                            |            |            |
| Current year                                                                                             | (13,047)   | (11,988)   |
| Prior years                                                                                              | (37,578)   | (46,459)   |
| Total net paid losses                                                                                    | (50,625)   | (58,447)   |
| Foreign currency translation                                                                             | 4,644      | 6,669      |
| Net reserves for loss and loss adjustment expenses, end of period                                        | 980,366    | 760,299    |
| Plus: loss and loss adjustment expenses recoverable, end of period                                       | 2,751      | 1,332      |
| Plus: deferred charges on retroactive reinsurance contracts                                              | 3,522      | —          |
| Gross reserves for loss and loss adjustment expenses, end of period                                      | \$ 986,639 | \$ 761,631 |

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 \$2.7 million net decrease in prior years' reserves for the three months ended March 31, 2019 includes \$4.0 million of net favorable reserve development related to decreases in loss reserve estimates, partially offset by a \$1.3 million increase in loss reserves resulting from increases in premium earnings estimates on certain contracts. The net decrease 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 \$4.0 million of net favorable prior years' reserve development for the three months ended March 31, 2019 was accompanied by net increases of \$3.7 million in acquisition costs, resulting in a \$0.3 million improvement in the net underwriting results, primarily due to:
  - \$7.7 million of net favorable underwriting loss development relating to workers' compensation contracts. The favorable development was the result of better than expected loss experience and was partially offset by;
  - \$7.1 million of net adverse underwriting loss development primarily relating to our general liability and multi-line contracts, as a result of worse than expected loss experience.
- The \$1.3 million net increase in loss and loss adjustment expenses incurred resulting from increases in premium earnings estimates was accompanied by a \$1.0 million increase in acquisition costs, for a total of \$2.3 million increase in loss and loss adjustment expenses incurred and acquisition costs. The increase in loss and loss adjustment expenses incurred and acquisition costs was due to an increase in prior period earned premium of \$2.2 million. The increase in prior period earned premium was the result of changes in ultimate premium and

earning pattern estimates. The net impact was a \$0.1 million increase in net underwriting loss for the three months ended March 31, 2019.

- In total, the change in net underwriting loss for prior periods due to loss reserve development and adjustments to premium earnings estimates resulted in a \$0.2 million improvement in the net underwriting results for the three months ended March 31, 2019.

As of March 31, 2019, the Company had an unamortized deferred charge of \$3.5 million (December 31, 2018 - \$3.8 million) relating to retroactive reinsurance contracts. Deferred charge on retroactive contracts are recorded in other assets on the Company's condensed consolidated balance sheet.

The \$16.9 million net increase in prior years' reserves, which includes \$0.1 million for the amortization of deferred gains, for the three months ended March 31, 2018 includes \$0.6 million of net favorable reserve development related to decreases in loss reserve estimates and \$17.5 million increase in 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 \$0.6 million of net favorable prior years' reserve development for the three months ended March 31, 2018 was accompanied by net increases of \$0.1 million in acquisition costs, resulting in a \$0.5 million improvement in the net underwriting results, primarily due to:
  - \$2.4 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;
  - \$2.1 million of net favorable underwriting loss development from several other contracts, including amortization of deferred gains, as a result of better than expected loss experience; partially offset by
  - \$4.0 million of net adverse underwriting loss development relating to our Florida homeowners' reinsurance contracts. This development is 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. This practice has led to increases in the frequency of claims reported as well as the severity of losses and loss adjustment expenses.
- The \$17.5 million net increase in loss and loss adjustment expenses incurred resulting from increases in premium earnings estimates was accompanied by a \$5.1 million increase in acquisition costs, for a total of \$22.6 million increase in loss and loss adjustment expenses incurred and acquisition costs. The increase in loss and loss adjustment expenses incurred and acquisition costs was due to an increase in prior period earned premium of \$22.9 million. The increase in prior period earned premium was the result of changes in ultimate premium and earning pattern estimates. The net impact was a \$0.3 million improvement in the net underwriting results for the three months ended March 31, 2018.
- In total, the change in net underwriting loss for prior periods due to loss reserve development and adjustments to premium earnings estimates resulted in a \$0.8 million improvement in the net underwriting results for the three months ended March 31, 2018.

## **8. Management and performance fees**

Prior to the change in the Company's investment account structure described in Note 4, Third Point Re, Third Point Re BDA, TPRUSA and Third Point Re USA were parties to the Amended and Restated Joint Venture and Investment Management Agreements (the "JV Agreements") with Third Point LLC and TP GP under which Third Point LLC managed certain jointly held assets. Effective August 31, 2018, Third Point Re, Third Point Re BDA and Third Point Re USA entered into the Amended and Restated Exempted Limited Partnership Agreement (the "2018 LPA") with Third Point Advisors LLC ("TP GP"), pursuant to which Third Point Re BDA and Third Point Re USA invested in the TP Fund. Effective January 1, 2019, Third Point Re, Third Point Re BDA and Third Point Re USA entered into the Second Amended and Restated Exempted Limited Partnership Agreement of TP Fund (the "Amended LPA", together with the 2018 LPA the "LPA"), which amended and restated the 2018 LPA.

## **Management fees**

Pursuant to both the JV Agreements and the LPA, Third Point LLC is entitled to receive monthly management fees. Prior to the change in the Company's investment account structure, management fees were calculated based on 1.5% of net investments managed by Third Point LLC. As a result of the 2018 LPA effective August 31, 2018, management fees are charged at the TP Fund level and were calculated based on 1.5% of the investment in TP Fund and multiplied by an exposure multiplier computed by dividing the average daily investment exposure leverage of the TP Fund by the average daily investment exposure leverage of the Third Point Offshore Master Fund L.P. ("Offshore Master Fund"). Third Point LLC also serves as the investment manager for the Offshore Master Fund. As a result of the Amended LPA effective January 1, 2019, the management fee was revised from 1.5% to 1.25% per annum, with no change to the calculation as part of the 2018 LPA.

## **Performance fees**

Pursuant to both the JV Agreements and the LPA, TP GP receives a performance fee allocation. Prior to the change in the Company's investment account structure, the performance fee allocation was equal to 20% of the net investment income of the applicable company's share of the net investment assets managed by Third Point LLC. As a result of the 2018 LPA effective August 31, 2018, the performance fee allocation is equal to 20% of the Company's investment income in the related party investment fund.

Prior to the change in the investment account structure described in Note 4, the performance fee accrued on net investment income was included in liabilities as a performance fee payable to related party during the period, unless funds were redeemed from the TP RE Limited Partners' accounts, in which case, the proportionate share of performance fee associated with the redemption amount was earned and allocated to TP GP's capital account and recorded as an increase in noncontrolling interests in related party. At the end of each year, the remaining portion of the performance fee payable that had not been included in noncontrolling interests in related party was earned and then allocated to TP GP's capital account.

As a result of the 2018 LPA effective August 31, 2018, the performance fee is included as part of "Investment in related party investment fund" on the Company's condensed consolidated balance sheet since the fees are charged at the TP Fund level.

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. As of March 31, 2019, the Loss Recovery Account for Third Point Re BDA's investment in TP Fund was \$20.2 million (December 31, 2018 - \$46.8 million) and for Third Point Re USA's investment in TP Fund was \$1.8 million (December 31, 2018 - \$3.8 million). These amounts have not been recorded in the Company's condensed consolidated balance sheets.

For the three months ended March 31, 2018, management and performance fees to related parties in the condensed consolidated statements of income (loss) include activity in the separate accounts prior to the change in the investment account structure. As a result of the 2018 LPA effective August 31, 2018, management and performance fees for the three months ended March 31, 2019 are presented within net investment income from investment in related party investment fund in the condensed consolidated statements of income (loss).



The total management and performance fees to related parties, including our share of fees paid in connection with our investment in TP Fund, for the three months ended March 31, 2019 and 2018 were as follows:

|                                                                                                                                               | 2019            | 2018             |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------|
| Management fees - Third Point LLC                                                                                                             | \$ —            | \$ 9,775         |
| Performance fees - Third Point Advisors LLC                                                                                                   | —               | 272              |
| Management and performance fees to related parties as reported in the Company's condensed consolidated statement of income (loss)             | —               | 10,047           |
| Management and performance fees included in net investment income from investment in related party investment fund (before loss carryforward) | 34,241          | —                |
| Performance fees - Loss carryforward                                                                                                          | (29,398)        | —                |
| Total management and performance fees to related parties                                                                                      | <u>\$ 4,843</u> | <u>\$ 10,047</u> |

## 9. Deposit accounted contracts

The following table represents activity for the deposit contracts for the three months ended March 31, 2019 and year ended December 31, 2018:

|                                            | March 31,<br>2019 | December 31,<br>2018 |
|--------------------------------------------|-------------------|----------------------|
| Balance, beginning of period               | \$ 145,342        | \$ 129,133           |
| Consideration received                     | 571               | 17,879               |
| Consideration receivable                   | —                 | 7,390                |
| Net investment expense (income) allocation | 1,500             | (1,273)              |
| Payments                                   | (2,665)           | (8,089)              |
| Foreign currency translation               | 34                | 302                  |
| Balance, end of period                     | <u>\$ 144,782</u> | <u>\$ 145,342</u>    |

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

### Senior Notes payable

As of March 31, 2019, 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 March 31, 2019, the Company had capitalized \$1.0 million of costs associated with the Notes, which are presented as a direct deduction from the principal amount of the Notes on the condensed consolidated balance sheets. As of March 31, 2019, the Notes had an estimated fair value of \$116.6 million (December 31, 2018 - \$114.7 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 and for the periods ended March 31, 2019 and December 31, 2018.

## Letters of credit

As of March 31, 2019, the Company had entered into the following letter of credit facilities:

|                                                    | Letters of Credit  |                   | Collateral                |
|----------------------------------------------------|--------------------|-------------------|---------------------------|
|                                                    | Committed Capacity | Issued            | Cash and Cash Equivalents |
| Unsecured syndicated credit facility               | \$ 200,000         | \$ 158,027        | n/a                       |
| Committed - Secured letters of credit facilities   | 125,000            | 61,624            | 61,624                    |
| Uncommitted - Secured letters of credit facilities | n/a                | 146,856           | 146,856                   |
|                                                    |                    | <u>\$ 366,507</u> | <u>\$ 208,480</u>         |

The Company's secured letter of credit facilities are bilateral agreements that generally renew on an annual basis. The letters of credit issued under the secured letter of credit facilities are fully collateralized. The syndicated unsecured letter of credit facility expires on July 30, 2019. See Note 3 for additional information.

## 11. Net investment income (loss)

Net investment income (loss) for the three months ended March 31, 2019 and 2018 consisted of the following:

|                                                                                   | 2019              | 2018              |
|-----------------------------------------------------------------------------------|-------------------|-------------------|
| <b>Net investment income (loss) by type</b>                                       |                   |                   |
| Net realized gains on investments and investment derivatives                      | \$ —              | \$ 65,770         |
| Net change in unrealized gains (losses) on investments and investment derivatives | 1,702             | (62,987)          |
| Net gains (losses) on foreign currencies                                          | 3,765             | (787)             |
| Dividend and interest income                                                      | 2,685             | 13,224            |
| Dividends paid on securities sold, not yet purchased                              | —                 | (1,892)           |
| Other expenses                                                                    | (190)             | (5,489)           |
| Management and performance fees to related parties                                | —                 | (10,047)          |
| Net investment income from investment in related party investment fund (1)        | 146,991           | —                 |
| Net investment income (loss)                                                      | <u>\$ 154,953</u> | <u>\$ (2,208)</u> |

(1) Effective August 31, 2018, Third Point Re, Third Point Re BDA and Third Point Re USA entered into the 2018 LPA to invest in TP Fund. As a result, the management and performance fees are presented within net investment income from investment in related party investment fund from the effective date of the transition. See Note 8 for additional information regarding management and performance fees.

The following table provides an additional breakdown of our net investment income (loss) by asset and liability type for the three months ended March 31, 2019 and 2018:

|                                                                                                                               | 2019       | 2018        |
|-------------------------------------------------------------------------------------------------------------------------------|------------|-------------|
| <b>Net investment income (loss) by asset type</b>                                                                             |            |             |
| Equity securities                                                                                                             | \$ —       | \$ (18,325) |
| Private common equity securities                                                                                              | —          | (442)       |
| Private preferred equity securities                                                                                           | —          | (2,040)     |
| Total equities                                                                                                                | —          | (20,807)    |
| Asset-backed securities                                                                                                       | —          | 12,449      |
| Bank debt                                                                                                                     | —          | 2,521       |
| Corporate bonds                                                                                                               | —          | (2,676)     |
| Municipal bonds                                                                                                               | —          | 3,778       |
| U.S. Treasury securities                                                                                                      | 1,798      | (637)       |
| Sovereign debt                                                                                                                | 966        | 4,131       |
| Other debt securities                                                                                                         | —          | 438         |
| Total debt securities                                                                                                         | 2,764      | 20,004      |
| Options                                                                                                                       | —          | (1,057)     |
| Rights and warrants                                                                                                           | —          | (16)        |
| Real estate                                                                                                                   | —          | 87          |
| Trade claims                                                                                                                  | —          | (3)         |
| Total other investments                                                                                                       | —          | (989)       |
| Net investment income (loss) in funds valued at NAV, excluding TP Fund                                                        | 3          | (908)       |
| Total net investment income (loss) from invested assets                                                                       | 2,767      | (2,700)     |
| <b>Net investment income (loss) by liability type</b>                                                                         |            |             |
| Equity securities                                                                                                             | —          | 12,918      |
| Corporate bonds                                                                                                               | —          | (35)        |
| Options                                                                                                                       | —          | 3,733       |
| Total net investment income from securities sold, not yet purchased                                                           | —          | 16,616      |
| <b>Other investment income (losses) and other expenses not presented above</b>                                                |            |             |
| Other investment expenses                                                                                                     | (190)      | (352)       |
| Net investment loss on derivative contracts                                                                                   | —          | (2,621)     |
| Net investment income (loss) on cash, including foreign exchange gain (loss)                                                  | 5,385      | (3,860)     |
| Net investment losses on securities purchased under an agreement to sell and securities sold under an agreement to repurchase | —          | (209)       |
| Withholding taxes reclassified to income tax expense                                                                          | —          | 965         |
| Total other investment income (losses) and other expenses                                                                     | 5,195      | (6,077)     |
| Management and performance fees to related parties                                                                            | —          | (10,047)    |
| Net investment income from investment in related party investment fund (1)                                                    | 146,991    | —           |
| Net investment income (loss)                                                                                                  | \$ 154,953 | \$ (2,208)  |

(1) Effective August 31, 2018, Third Point Re, Third Point Re BDA and Third Point Re USA entered into the 2018 LPA to invest in TP Fund. As a result, the management and performance fees are presented within net investment income from investment in related party investment fund from the effective date of the transition. See Note 8 for additional information regarding management and performance fees.

As a result of the Company's holding in TP Fund and its contribution to the Company's overall financial results, the Company includes the following summarized income statement of the TP Fund for the three months ended March 31, 2019 and summarized balance sheet as of March 31, 2019 and December 31, 2018.

This summarized income statement of TP Fund reflects the main components of total investment income and expenses of TP Fund. This summarized income statement is not a breakdown of the Company's proportional investment income in TP Fund as presented in the Company's condensed consolidated statement of income.

| <b>TP Fund summarized income statement (1)</b>                                                      | <b>2019</b>       |
|-----------------------------------------------------------------------------------------------------|-------------------|
| <b>Investment income</b>                                                                            |                   |
| Net realized loss from securities, derivative contracts and foreign currency translations           | \$ (23,101)       |
| Net change in unrealized gain on securities, derivative contracts and foreign currency translations | 190,038           |
| Net loss from currencies                                                                            | (482)             |
| Dividend and interest income                                                                        | 12,324            |
| Other income                                                                                        | 2,108             |
| <b>Total investment income</b>                                                                      | <b>180,887</b>    |
| <b>Expenses</b>                                                                                     |                   |
| Management fees                                                                                     | 4,842             |
| Interest                                                                                            | 3,623             |
| Dividends on securities sold, not yet purchased                                                     | 2,355             |
| Administrative and professional fees                                                                | 402               |
| Other expenses                                                                                      | 1,598             |
| <b>Total expenses</b>                                                                               | <b>12,820</b>     |
| <b>Net income</b>                                                                                   | <b>\$ 168,067</b> |

(1) TP Fund commenced operations on September 3, 2018, as result, there are no comparative results for the prior year period.

The following table is a summarized balance sheet of TP Fund as of March 31, 2019 and December 31, 2018 and reflects the underlying assets and liabilities of TP Fund. This summarized balance sheet is not a breakdown of the Company's proportional interests in the underlying assets and liabilities of TP Fund.

| <b>TP Fund summarized balance sheet</b>           | <b>March 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|---------------------------------------------------|---------------------------|------------------------------|
| <b>Assets</b>                                     |                           |                              |
| Total investments in securities                   | \$ 2,122,433              | \$ 1,561,636                 |
| Cash and cash equivalents                         | 15,010                    | 6                            |
| Due from brokers                                  | 162,353                   | 375,469                      |
| Derivative assets, at fair value                  | 16,334                    | 20,533                       |
| Interest and dividends receivable                 | 4,530                     | 3,693                        |
| Participation agreement with related party        | 1,522                     | 2,296                        |
| Other assets                                      | 401                       | 422                          |
| <b>Total assets</b>                               | <b>\$ 2,322,583</b>       | <b>\$ 1,964,055</b>          |
| <b>Liabilities</b>                                |                           |                              |
| Accounts payable and accrued expenses             | \$ 2,370                  | \$ 1,754                     |
| Securities sold, not yet purchased, at fair value | 413,090                   | 355,233                      |
| Due to brokers                                    | 192,985                   | 107,116                      |
| Derivative liabilities, at fair value             | 13,732                    | 27,483                       |
| Interest and dividends payable                    | 1,709                     | 1,881                        |
| Subscriptions received in advance                 | 15,000                    | —                            |
| Management fee payable                            | 224                       | 182                          |
| <b>Total liabilities</b>                          | <b>639,110</b>            | <b>493,649</b>               |
| <b>Total partners' capital</b>                    | <b>\$ 1,683,473</b>       | <b>\$ 1,470,406</b>          |

## 12. Income taxes

The Company provides for income tax expense or benefit based upon pre-tax income or loss reported in the condensed 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.

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

Prior to the change in the Company's investment account structure described in the Company's 2018 Form 10-K, the Company was 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. In addition, the Company had recorded uncertain tax positions related to certain investment transactions in certain foreign jurisdictions. As of March 31, 2019, the Company has accrued \$1.5 million (December 31, 2018 - \$1.5 million).

For the three months ended March 31, 2019 and 2018, the Company recorded income tax expense, as follows:

|                                                                        | 2019            | 2018          |
|------------------------------------------------------------------------|-----------------|---------------|
| Income tax expense (benefit) related to U.S. and U.K. subsidiaries (1) | \$ 1,718        | \$ (849)      |
| Change in uncertain tax positions (2)                                  | —               | 12            |
| Withholding taxes on certain investment transactions (2)               | —               | 965           |
|                                                                        | <u>\$ 1,718</u> | <u>\$ 128</u> |

(1) As of March 31, 2019, the Company has recorded \$7.3 million of net deferred tax assets, which are included in other assets in the condensed consolidated balance sheets. As of March 31, 2019 the net deferred tax asset was primarily the result of operating losses in the Company's U.S. subsidiaries. The Company believes that it is more likely than not that the tax benefit will be realized.

(2) Represents activity prior to the change in the Company's investment account structure on August 31, 2018 as described in the Company's 2018 Form 10-K.

### 13. Share capital

The following table presents a summary of the common shares issued and outstanding and shares repurchased held as treasury shares as of and for the three months ended March 31, 2019 and 2018:

| Common shares                                                                 | 2019       | 2018        |
|-------------------------------------------------------------------------------|------------|-------------|
| Common shares issued, beginning of period                                     | 93,639,610 | 107,227,347 |
| Restricted shares granted, net of forfeitures                                 | 281,221    | 2,516       |
| Performance restricted shares granted, net of forfeitures and shares withheld | 372,083    | 236,057     |
| Retirement of treasury shares and shares repurchased (1)                      | —          | (5,583,228) |
| Warrants exercised, net (2)                                                   | —          | 361,556     |
| Common shares issued, end of period                                           | 94,292,914 | 102,244,248 |

(1) Prior to December 31, 2017, common shares repurchased by the Company were not canceled and were classified as treasury shares. Effective January 1, 2018, all treasury shares were retired and subsequent shares repurchased are retired.

(2) During the three months ended March 31, 2018, 1,156,184 warrants were exercised. As a result of the warrant holder electing net settlement, 794,628 of those common shares were withheld by the Company and were subsequently retired, resulting in a net issuance of 361,556 common shares.

### 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

As of March 31, 2019, the Company is authorized to repurchase up to an aggregate of \$61.3 million of common shares under its share repurchase program. 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 three months ended March 31, 2019, the Company did not repurchase any of its common shares.

### 14. Share-based compensation

The following table provides the total share-based compensation expense included in general and administrative expenses during the three months ended March 31, 2019 and 2018:

|                                                          | 2019            | 2018            |
|----------------------------------------------------------|-----------------|-----------------|
| Management and director options                          | \$ —            | \$ 95           |
| Restricted shares with service condition                 | 194             | 140             |
| Restricted shares with service and performance condition | 1,264           | 1,010           |
|                                                          | <u>\$ 1,458</u> | <u>\$ 1,245</u> |

As of March 31, 2019, the Company had \$14.9 million (December 31, 2018 - \$7.4 million) of unamortized share compensation expense, which is expected to be amortized over a weighted average period of 1.7 years (December 31, 2018 - 1.4 years).

### Management and director options

The Company has not granted any stock option awards since April, 2013. These stock option awards were fully amortized as of December 31, 2018.

The following table summarizes information about the Company's management and director share options outstanding and exercisable as of March 31, 2019:

| Range of exercise prices | Number of options | Weighted average exercise price | Remaining contractual life |
|--------------------------|-------------------|---------------------------------|----------------------------|
| \$10.00 - \$10.89        | 5,123,531         | \$ 10.04                        | 2.8 years                  |
| \$15.05 - \$16.89        | 1,917,145         | 15.93                           | 3.0 years                  |
| \$20.00 - \$25.05        | 1,847,377         | 20.26                           | 3.0 years                  |
|                          | <u>8,888,053</u>  | \$ 13.43                        | 2.9 years                  |

***Restricted shares with service condition***

Restricted share award activity for the three months ended March 31, 2019 and year ended December 31, 2018 was as follows:

|                               | Number of non-vested restricted shares | Weighted average grant date fair value |
|-------------------------------|----------------------------------------|----------------------------------------|
| Balance as of January 1, 2018 | 18,209                                 | \$ 12.15                               |
| Granted                       | 50,644                                 | 13.45                                  |
| Vested                        | (44,788)                               | 12.97                                  |
| Balance as of January 1, 2019 | 24,065                                 | 13.35                                  |
| Granted                       | 281,221                                | 11.21                                  |
| Vested                        | (12,032)                               | 13.35                                  |
| Balance as of March 31, 2019  | <u>293,254</u>                         | \$ 11.52                               |

Restricted shares with service condition vest either ratably or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment or service and transferability.

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

Restricted share award activity for the restricted shares with a service and performance condition for the three months ended March 31, 2019 and year ended December 31, 2018 were as follows:

|                                                                      | Number of non-vested restricted shares | Number of non-vested restricted shares probable of vesting | Weighted average grant date fair value of shares probable of vesting |
|----------------------------------------------------------------------|----------------------------------------|------------------------------------------------------------|----------------------------------------------------------------------|
| Balance as of January 1, 2018                                        | 1,855,379                              | 887,203                                                    | \$ 12.60                                                             |
| Granted                                                              | 556,403                                | 370,931                                                    | 14.01                                                                |
| Forfeited                                                            | (294,977)                              | (4,102)                                                    | 13.98                                                                |
| Vested                                                               | (115,757)                              | (115,757)                                                  | 14.00                                                                |
| Change in estimated restricted shares considered probable of vesting | n/a                                    | 46,945                                                     | 13.35                                                                |
| Balance as of January 1, 2019                                        | 2,001,048                              | 1,185,220                                                  | 12.80                                                                |
| Granted                                                              | 781,789                                | 521,193                                                    | 11.21                                                                |
| Forfeited                                                            | (403,264)                              | —                                                          | 11.40                                                                |
| Vested                                                               | (148,718)                              | (148,718)                                                  | 11.40                                                                |
| Change in estimated restricted shares considered probable of vesting | n/a                                    | (2,158)                                                    | 11.40                                                                |
| Balance as of March 31, 2019                                         | <u>2,230,855</u>                       | <u>1,555,537</u>                                           | \$ 12.41                                                             |

## 15. 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. Prior to the change in the Company's investment account structure described in the Company's 2018 Form 10-K, the joint ventures created through the JV Agreements had been considered variable interest entities and had been consolidated in accordance with ASC 810, *Consolidation* (ASC 810). Since the Company was deemed to be the primary beneficiary, the Company had consolidated the joint ventures and recorded TP GP's minority interests as redeemable noncontrolling interests in related party and noncontrolling interests in related party in the condensed consolidated balance sheets.

A portion of the noncontrolling interest in investment affiliates was subject to contractual withdrawal rights of TP GP, whereas TP GP, at its sole discretion, could withdraw the capital over the minimum capital required to be maintained in its capital accounts. This excess capital was therefore recorded on the Company's condensed consolidated balance sheets as redeemable noncontrolling interest in related party whereas the required minimum capital was recorded as noncontrolling interests in related party within shareholders' equity on the Company's condensed consolidated balance sheets 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 three months ended March 31, 2018:

|                                           | Redeemable<br>noncontrolling<br>interests in<br>related party | Noncontrolling<br>interests in<br>related party | Total<br>noncontrolling<br>interests in<br>related party |
|-------------------------------------------|---------------------------------------------------------------|-------------------------------------------------|----------------------------------------------------------|
|                                           | March 31,<br>2018                                             | March 31,<br>2018                               | March 31,<br>2018                                        |
| Balance, beginning of period              | \$ 108,219                                                    | \$ 5,407                                        | \$ 113,626                                               |
| Changes in capital account allocation (1) | (101,418)                                                     | (318)                                           | (101,736)                                                |
| Balance, end of period                    | \$ 6,801                                                      | \$ 5,089                                        | \$ 11,890                                                |

(1) Changes in capital account allocation include TPGP's redemption in conjunction with the change in the investment account structure as described in the Company's 2018 Form 10-K.

In addition, the following table is a reconciliation of beginning and ending carrying amount of total noncontrolling interests in related party resulting from the condensed consolidation of the Company's joint venture in Third Point Re BDA and Third Point Re USA for the three months ended March 31, 2018:

|                                                                            | Third Point Re<br>BDA | Third Point Re<br>USA | Total             |
|----------------------------------------------------------------------------|-----------------------|-----------------------|-------------------|
|                                                                            | March 31,<br>2018     | March 31,<br>2018     | March 31,<br>2018 |
| Balance, beginning of period                                               | \$ 97,619             | \$ 16,007             | \$ 113,626        |
| Net income attributable to total noncontrolling interests in related party | (7)                   | 17                    | 10                |
| Contributions (1)                                                          | 240                   | 14                    | 254               |
| Redemptions (2)                                                            | (89,000)              | (13,000)              | (102,000)         |
| Balance, end of period                                                     | \$ 8,852              | \$ 3,038              | \$ 11,890         |

(1) Contributions include performance fees earned during the period. See Note 8 for additional information.

(2) Redemptions include TP GP's redemption in conjunction with the change in the investment account structure as described in the Company's 2018 Form 10-K.



## Non-consolidated variable interest entity

### *Third Point Enhanced LP*

TP Fund meets the definition of a variable interest entity principally because of the existence of disproportionate rights in the partnership compared to the obligations to absorb the expected losses and right to receive the expected residual returns of TP Fund's results. As of March 31, 2019, the Company and TP GP hold interests of approximately 87.7% and 12.1%, respectively, of the net asset value of TP Fund. As a result, both entities hold significant financial interests in TP Fund. However, TP GP controls all of the investment decision making authority and the Company does not have the power to direct the activities which most significantly impact the economic performance of TP Fund. As a result, the Company is not considered the primary beneficiary and does not consolidate TP Fund.

Realized gains or losses upon any redemptions of investments are calculated using the weighted average method and the Company records contributions and withdrawals related to its investment in the TP Fund on the transaction date. As of March 31, 2019, the Company had no unfunded commitments related to TP Fund and the Company's maximum exposure to loss corresponds to the value of its investments in TP Fund.

Under the 2018 LPA, the TPRE Limited Partners have the right to withdraw funds weekly from TP Fund to pay claims and expenses as needed, to meet capital adequacy requirements and to satisfy financing obligations. The TPRE Limited Partners may also withdraw their investment upon the occurrence of certain events specified in the 2018 LPA and may withdraw their investment in full on December 31, 2021 and each successive three-year anniversary of such date.

### **16. 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 three months ended March 31, 2019 and 2018:

|                                                                                   | 2019                                                  | 2018        |
|-----------------------------------------------------------------------------------|-------------------------------------------------------|-------------|
|                                                                                   | (\$ in thousands, except share and per share amounts) |             |
| <b>Weighted-average number of common shares outstanding:</b>                      |                                                       |             |
| Basic number of common shares outstanding                                         | 91,669,810                                            | 101,195,747 |
| Dilutive effect of options                                                        | 291,248                                               | —           |
| Dilutive effect of warrants                                                       | 207,134                                               | —           |
| Dilutive effect of restricted shares with service and performance condition       | 410,741                                               | —           |
| Diluted number of common shares outstanding                                       | 92,578,933                                            | 101,195,747 |
| <b>Basic earnings (loss) per common share:</b>                                    |                                                       |             |
| Net income (loss) available to Third Point Re common shareholders                 | \$ 132,915                                            | \$ (26,001) |
| Net income allocated to Third Point Re participating common shareholders          | (173)                                                 | —           |
| Net income (loss) allocated to Third Point Re common shareholders                 | \$ 132,742                                            | \$ (26,001) |
| Basic earnings (loss) per share available to Third Point Re common shareholders   | \$ 1.45                                               | \$ (0.26)   |
| <b>Diluted earnings (loss) per common share:</b>                                  |                                                       |             |
| Net income (loss) available to Third Point Re common shareholders                 | \$ 132,915                                            | \$ (26,001) |
| Net income allocated to Third Point Re participating common shareholders          | (171)                                                 | —           |
| Net income (loss) allocated to Third Point Re common shareholders                 | \$ 132,744                                            | \$ (26,001) |
| Diluted earnings (loss) per share available to Third Point Re common shareholders | \$ 1.43                                               | \$ (0.26)   |

For the three months ended March 31, 2019, anti-dilutive options of 3,973,824, were excluded from the computation of diluted earnings per share.

As a result of the net loss for the three months ended March 31, 2018, outstanding options, warrants and restricted shares with service and performance condition totaling 10,382,268 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.

## **17. Commitments and Contingencies**

### **Investments**

Under the new investment account structure described in the Company's 2018 Form 10-K, the Company does not have any unfunded commitments or obligations.

### **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.

### **Letters of Credit**

See Note 10 for additional information related to the Company's letter of credit facilities.

### **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 owed to it. In other matters, the Company may resist attempts by others to collect funds or enforce alleged rights. The Company is not currently involved in any material formal or informal dispute resolution procedures.

## 18. 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. Non-underwriting income and expenses including: net investment income (loss), certain general and administrative expenses related to corporate activities, interest expense, foreign exchange losses and income tax expense are presented as a reconciliation to the Company's consolidated results. 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 three months ended March 31, 2019 and 2018:

|                                                                          | 2019                              |                   | 2018                              |                    |
|--------------------------------------------------------------------------|-----------------------------------|-------------------|-----------------------------------|--------------------|
|                                                                          | Property and Casualty Reinsurance | Total             | Property and Casualty Reinsurance | Total              |
| <b>Revenues</b>                                                          |                                   |                   |                                   |                    |
| Gross premiums written                                                   | \$ 319,591                        | \$ 319,591        | \$ 378,360                        | \$ 378,360         |
| Gross premiums ceded                                                     | (712)                             | (712)             | (14,646)                          | (14,646)           |
| Net premiums written                                                     | 318,879                           | 318,879           | 363,714                           | 363,714            |
| Change in net unearned premium reserves                                  | (165,829)                         | (165,829)         | (221,228)                         | (221,228)          |
| Net premiums earned                                                      | 153,050                           | 153,050           | 142,486                           | 142,486            |
| <b>Expenses</b>                                                          |                                   |                   |                                   |                    |
| Loss and loss adjustment expenses incurred, net                          | 95,068                            | 95,068            | 92,620                            | 92,620             |
| Acquisition costs, net                                                   | 57,498                            | 57,498            | 51,405                            | 51,405             |
| General and administrative expenses                                      | 6,224                             | 6,224             | 4,824                             | 4,824              |
| Total expenses                                                           | 158,790                           | 158,790           | 148,849                           | 148,849            |
| <b>Net underwriting loss</b>                                             | <b>\$ (5,740)</b>                 | <b>(5,740)</b>    | <b>\$ (6,363)</b>                 | <b>(6,363)</b>     |
| Net investment income (loss)                                             |                                   | 154,953           |                                   | (2,208)            |
| Corporate expenses                                                       |                                   | (5,908)           |                                   | (4,657)            |
| Other expenses                                                           |                                   | (4,125)           |                                   | (3,995)            |
| Interest expense                                                         |                                   | (2,029)           |                                   | (2,029)            |
| Foreign exchange losses                                                  |                                   | (2,518)           |                                   | (6,611)            |
| Income tax expense                                                       |                                   | (1,718)           |                                   | (128)              |
| Net income attributable to noncontrolling interests in related party     |                                   | —                 |                                   | (10)               |
| <b>Net income (loss) available to Third Point Re common shareholders</b> |                                   | <b>\$ 132,915</b> |                                   | <b>\$ (26,001)</b> |
| <b>Property and Casualty Reinsurance - Underwriting Ratios (1):</b>      |                                   |                   |                                   |                    |
| Loss ratio                                                               | 62.1%                             |                   | 65.0%                             |                    |
| Acquisition cost ratio                                                   | 37.6%                             |                   | 36.1%                             |                    |
| Composite ratio                                                          | 99.7%                             |                   | 101.1%                            |                    |
| General and administrative expense ratio                                 | 4.1%                              |                   | 3.4%                              |                    |
| Combined ratio                                                           | 103.8%                            |                   | 104.5%                            |                    |

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

The following table provides a breakdown of the Company's gross premiums written by line of business for the three months ended March 31, 2019 and 2018:

|                                                  | 2019              |                | 2018              |               |
|--------------------------------------------------|-------------------|----------------|-------------------|---------------|
| Property                                         | \$ 53,981         | 16.9 %         | \$ 369            | 0.1%          |
| Casualty                                         | 77,892            | 24.4 %         | 153,220           | 40.5%         |
| Specialty                                        | 193,071           | 60.4 %         | 224,771           | 59.4%         |
| Total prospective reinsurance contracts          | 324,944           | 101.7 %        | 378,360           | 100.0%        |
| Retroactive reinsurance contracts <sup>(1)</sup> | (5,353)           | (1.7)%         | —                 | —%            |
|                                                  | <u>\$ 319,591</u> | <u>100.0 %</u> | <u>\$ 378,360</u> | <u>100.0%</u> |

- (1) The negative gross premiums written amount for the retroactive reinsurance contracts lines of business was the result of a reduction in premium estimate on one contract during the period.

## 19. Supplemental guarantor information

Third Point Re fully and unconditionally guarantees the \$115.0 million of Notes issued by TPRUSA, a wholly owned subsidiary.

The following information sets forth condensed consolidating balance sheets as of March 31, 2019 and December 31, 2018, condensed consolidating statements of income for the three months ended March 31, 2019 and 2018 and condensed consolidating statements of cash flows for the three months ended March 31, 2019 and 2018 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.

**CONDENSED CONSOLIDATING BALANCE SHEET**  
As of March 31, 2019

|                                                                                | Third<br>Point Re   | TPRUSA            | Non-<br>Guarantor<br>Subsidiaries | Eliminations          | Consolidated        |
|--------------------------------------------------------------------------------|---------------------|-------------------|-----------------------------------|-----------------------|---------------------|
| <b>Assets</b>                                                                  |                     |                   |                                   |                       |                     |
| Total investments in securities                                                | \$ 3,000            | \$ —              | \$ 1,717,141                      | \$ —                  | \$ 1,720,141        |
| Cash and cash equivalents                                                      | —                   | 186               | 54,133                            | —                     | 54,319              |
| Restricted cash and cash equivalents                                           | —                   | —                 | 616,844                           | —                     | 616,844             |
| Subscription receivable from related party investment fund                     | —                   | —                 | 15,000                            | —                     | 15,000              |
| Investment in subsidiaries                                                     | 1,343,997           | 270,553           | 191,043                           | (1,805,593)           | —                   |
| Due from brokers                                                               | —                   | —                 | 637                               | —                     | 637                 |
| Interest and dividends receivable                                              | —                   | —                 | 1,891                             | —                     | 1,891               |
| Reinsurance balances receivable                                                | —                   | —                 | 758,816                           | —                     | 758,816             |
| Deferred acquisition costs, net                                                | —                   | —                 | 233,108                           | —                     | 233,108             |
| Unearned premiums ceded                                                        | —                   | —                 | 16,139                            | —                     | 16,139              |
| Loss and loss adjustment expenses recoverable                                  | —                   | —                 | 2,751                             | —                     | 2,751               |
| Amounts due from (to) affiliates                                               | (7,897)             | 127               | 7,770                             | —                     | —                   |
| Other assets                                                                   | 1,088               | 5,487             | 13,913                            | —                     | 20,488              |
| <b>Total assets</b>                                                            | <u>\$ 1,340,188</u> | <u>\$ 276,353</u> | <u>\$ 3,629,186</u>               | <u>\$ (1,805,593)</u> | <u>\$ 3,440,134</u> |
| <b>Liabilities</b>                                                             |                     |                   |                                   |                       |                     |
| Accounts payable and accrued expenses                                          | \$ 1,309            | \$ 30             | \$ 7,886                          | \$ —                  | \$ 9,225            |
| Reinsurance balances payable                                                   | —                   | —                 | 76,766                            | —                     | 76,766              |
| Deposit liabilities                                                            | —                   | —                 | 144,782                           | —                     | 144,782             |
| Unearned premium reserves                                                      | —                   | —                 | 767,352                           | —                     | 767,352             |
| Loss and loss adjustment expense reserves                                      | —                   | —                 | 986,639                           | —                     | 986,639             |
| Participation agreement with related party investment fund                     | —                   | —                 | 1,521                             | —                     | 1,521               |
| Interest and dividends payable                                                 | —                   | 1,015             | —                                 | —                     | 1,015               |
| Senior notes payable, net of deferred costs                                    | —                   | 113,955           | —                                 | —                     | 113,955             |
| <b>Total liabilities</b>                                                       | <u>1,309</u>        | <u>115,000</u>    | <u>1,984,946</u>                  | <u>—</u>              | <u>2,101,255</u>    |
| <b>Shareholders' equity</b>                                                    |                     |                   |                                   |                       |                     |
| Common shares                                                                  | 9,429               | —                 | 1,239                             | (1,239)               | 9,429               |
| Additional paid-in capital                                                     | 920,207             | 191,296           | 1,588,608                         | (1,779,904)           | 920,207             |
| Retained earnings (deficit)                                                    | 409,243             | (29,943)          | 54,393                            | (24,450)              | 409,243             |
| <b>Shareholders' equity attributable to Third Point Re common shareholders</b> | <u>1,338,879</u>    | <u>161,353</u>    | <u>1,644,240</u>                  | <u>(1,805,593)</u>    | <u>1,338,879</u>    |
| <b>Total liabilities and shareholders' equity</b>                              | <u>\$ 1,340,188</u> | <u>\$ 276,353</u> | <u>\$ 3,629,186</u>               | <u>\$ (1,805,593)</u> | <u>\$ 3,440,134</u> |

**CONDENSED CONSOLIDATING BALANCE SHEET**  
**As of December 31, 2018**

|                                                                                | <b>Third<br/>Point Re</b> | <b>TPRUSA</b>     | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b>   | <b>Consolidated</b> |
|--------------------------------------------------------------------------------|---------------------------|-------------------|--------------------------------------------|-----------------------|---------------------|
| <b>Assets</b>                                                                  |                           |                   |                                            |                       |                     |
| Total investments in securities                                                | \$ —                      | \$ —              | \$ 1,523,728                               | \$ —                  | \$ 1,523,728        |
| Cash and cash equivalents                                                      | —                         | 187               | 103,996                                    | —                     | 104,183             |
| Restricted cash and cash equivalents                                           | —                         | —                 | 609,154                                    | —                     | 609,154             |
| Investment in subsidiaries                                                     | 1,207,161                 | 251,350           | 175,758                                    | (1,634,269)           | —                   |
| Due from brokers                                                               | —                         | —                 | 1,411                                      | —                     | 1,411               |
| Interest and dividends receivable                                              | —                         | —                 | 1,316                                      | —                     | 1,316               |
| Reinsurance balances receivable                                                | —                         | —                 | 602,448                                    | —                     | 602,448             |
| Deferred acquisition costs, net                                                | —                         | —                 | 203,842                                    | —                     | 203,842             |
| Unearned premiums ceded                                                        | —                         | —                 | 17,552                                     | —                     | 17,552              |
| Loss and loss adjustment expenses recoverable                                  | —                         | —                 | 2,031                                      | —                     | 2,031               |
| Amounts due from (to) affiliates                                               | (3,522)                   | 52                | 3,470                                      | —                     | —                   |
| Other assets                                                                   | 1,673                     | 5,069             | 13,827                                     | —                     | 20,569              |
| <b>Total assets</b>                                                            | <b>\$ 1,205,312</b>       | <b>\$ 256,658</b> | <b>\$ 3,258,533</b>                        | <b>\$ (1,634,269)</b> | <b>\$ 3,086,234</b> |
| <b>Liabilities</b>                                                             |                           |                   |                                            |                       |                     |
| Accounts payable and accrued expenses                                          | \$ 738                    | \$ 70             | \$ 6,453                                   | \$ —                  | \$ 7,261            |
| Reinsurance balances payable                                                   | —                         | —                 | 69,701                                     | —                     | 69,701              |
| Deposit liabilities                                                            | —                         | —                 | 145,342                                    | —                     | 145,342             |
| Unearned premium reserves                                                      | —                         | —                 | 602,936                                    | —                     | 602,936             |
| Loss and loss adjustment expense reserves                                      | —                         | —                 | 937,157                                    | —                     | 937,157             |
| Participation agreement with related party investment fund                     | —                         | —                 | 2,297                                      | —                     | 2,297               |
| Interest and dividends payable                                                 | —                         | 3,055             | —                                          | —                     | 3,055               |
| Senior notes payable, net of deferred costs                                    | —                         | 113,911           | —                                          | —                     | 113,911             |
| <b>Total liabilities</b>                                                       | <b>738</b>                | <b>117,036</b>    | <b>1,763,886</b>                           | <b>—</b>              | <b>1,881,660</b>    |
| <b>Shareholders' equity</b>                                                    |                           |                   |                                            |                       |                     |
| Common shares                                                                  | 9,364                     | —                 | 1,239                                      | (1,239)               | 9,364               |
| Additional paid-in capital                                                     | 918,882                   | 176,005           | 1,557,016                                  | (1,733,021)           | 918,882             |
| Retained earnings (deficit)                                                    | 276,328                   | (36,383)          | (63,608)                                   | 99,991                | 276,328             |
| <b>Shareholders' equity attributable to Third Point Re common shareholders</b> | <b>1,204,574</b>          | <b>139,622</b>    | <b>1,494,647</b>                           | <b>(1,634,269)</b>    | <b>1,204,574</b>    |
| <b>Total liabilities and shareholders' equity</b>                              | <b>\$ 1,205,312</b>       | <b>\$ 256,658</b> | <b>\$ 3,258,533</b>                        | <b>\$ (1,634,269)</b> | <b>\$ 3,086,234</b> |

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME**

| <b>For the three months ended March 31, 2019</b>                     | <b>Third<br/>Point Re</b> | <b>TPRUSA</b>   | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|----------------------------------------------------------------------|---------------------------|-----------------|--------------------------------------------|---------------------|---------------------|
| <b>Revenues</b>                                                      |                           |                 |                                            |                     |                     |
| Gross premiums written                                               | \$ —                      | \$ —            | \$ 319,591                                 | \$ —                | \$ 319,591          |
| Gross premiums ceded                                                 | —                         | —               | (712)                                      | —                   | (712)               |
| Net premiums written                                                 | —                         | —               | 318,879                                    | —                   | 318,879             |
| Change in net unearned premium reserves                              | —                         | —               | (165,829)                                  | —                   | (165,829)           |
| Net premiums earned                                                  | —                         | —               | 153,050                                    | —                   | 153,050             |
| Net investment income                                                | —                         | —               | 154,953                                    | —                   | 154,953             |
| Equity in earnings (losses) of subsidiaries                          | 135,541                   | 8,012           | (8)                                        | (143,545)           | —                   |
| Total revenues                                                       | 135,541                   | 8,012           | 307,995                                    | (143,545)           | 308,003             |
| <b>Expenses</b>                                                      |                           |                 |                                            |                     |                     |
| Loss and loss adjustment expenses incurred, net                      | —                         | —               | 95,068                                     | —                   | 95,068              |
| Acquisition costs, net                                               | —                         | —               | 57,498                                     | —                   | 57,498              |
| General and administrative expenses                                  | 2,626                     | (39)            | 9,545                                      | —                   | 12,132              |
| Other expenses                                                       | —                         | —               | 4,125                                      | —                   | 4,125               |
| Interest expense                                                     | —                         | 2,029           | —                                          | —                   | 2,029               |
| Foreign exchange losses                                              | —                         | —               | 2,518                                      | —                   | 2,518               |
| Total expenses                                                       | 2,626                     | 1,990           | 168,754                                    | —                   | 173,370             |
| Income before income tax (expense) benefit                           | 132,915                   | 6,022           | 139,241                                    | (143,545)           | 134,633             |
| Income tax (expense) benefit                                         | —                         | 418             | (2,136)                                    | —                   | (1,718)             |
| <b>Net income</b>                                                    | <b>132,915</b>            | <b>6,440</b>    | <b>137,105</b>                             | <b>(143,545)</b>    | <b>132,915</b>      |
| Net income attributable to noncontrolling interests in related party | —                         | —               | —                                          | —                   | —                   |
| <b>Net income available to Third Point Re common shareholders</b>    | <b>\$ 132,915</b>         | <b>\$ 6,440</b> | <b>\$ 137,105</b>                          | <b>\$ (143,545)</b> | <b>\$ 132,915</b>   |

**CONDENSED CONSOLIDATING STATEMENTS OF LOSS**

| <b>For the three months ended March 31, 2018</b>                     | <b>Third<br/>Point Re</b> | <b>TPRUSA</b>     | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|----------------------------------------------------------------------|---------------------------|-------------------|--------------------------------------------|---------------------|---------------------|
| <b>Revenues</b>                                                      |                           |                   |                                            |                     |                     |
| Gross premiums written                                               | \$ —                      | \$ —              | \$ 378,360                                 | \$ —                | \$ 378,360          |
| Gross premiums ceded                                                 | —                         | —                 | (14,646)                                   | —                   | (14,646)            |
| Net premiums written                                                 | —                         | —                 | 363,714                                    | —                   | 363,714             |
| Change in net unearned premium reserves                              | —                         | —                 | (221,228)                                  | —                   | (221,228)           |
| Net premiums earned                                                  | —                         | —                 | 142,486                                    | —                   | 142,486             |
| Net investment loss                                                  | —                         | —                 | (2,208)                                    | —                   | (2,208)             |
| Equity in losses of subsidiaries                                     | (24,358)                  | (1,609)           | (18)                                       | 25,985              | —                   |
| Total revenues                                                       | (24,358)                  | (1,609)           | 140,260                                    | 25,985              | 140,278             |
| <b>Expenses</b>                                                      |                           |                   |                                            |                     |                     |
| Loss and loss adjustment expenses incurred, net                      | —                         | —                 | 92,620                                     | —                   | 92,620              |
| Acquisition costs, net                                               | —                         | —                 | 51,405                                     | —                   | 51,405              |
| General and administrative expenses                                  | 1,643                     | 3                 | 7,835                                      | —                   | 9,481               |
| Other expenses                                                       | —                         | —                 | 3,995                                      | —                   | 3,995               |
| Interest expense                                                     | —                         | 2,029             | —                                          | —                   | 2,029               |
| Foreign exchange losses                                              | —                         | —                 | 6,611                                      | —                   | 6,611               |
| Total expenses                                                       | 1,643                     | 2,032             | 162,466                                    | —                   | 166,141             |
| Loss before income tax (expense) benefit                             | (26,001)                  | (3,641)           | (22,206)                                   | 25,985              | (25,863)            |
| Income tax (expense) benefit                                         | —                         | 427               | (555)                                      | —                   | (128)               |
| <b>Net loss</b>                                                      | <b>(26,001)</b>           | <b>(3,214)</b>    | <b>(22,761)</b>                            | <b>25,985</b>       | <b>(25,991)</b>     |
| Net income attributable to noncontrolling interests in related party | —                         | —                 | (10)                                       | —                   | (10)                |
| <b>Net loss attributable to Third Point Re common shareholders</b>   | <b>\$ (26,001)</b>        | <b>\$ (3,214)</b> | <b>\$ (22,771)</b>                         | <b>\$ 25,985</b>    | <b>\$ (26,001)</b>  |

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

| <b>For the three months ended March 31, 2019</b>                                            | <b>Third<br/>Point Re</b> | <b>TPRUSA</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------------------------------------------------------|---------------------------|---------------|--------------------------------------------|---------------------|---------------------|
| <b>Operating activities</b>                                                                 |                           |               |                                            |                     |                     |
| Net income                                                                                  | \$ 132,915                | \$ 6,440      | \$ 137,105                                 | \$ (143,545)        | \$ 132,915          |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                           |               |                                            |                     |                     |
| Equity in losses of subsidiaries                                                            | (135,541)                 | (8,012)       | 8                                          | 143,545             | —                   |
| Share compensation expense                                                                  | 163                       | —             | 1,295                                      | —                   | 1,458               |
| Net interest expense on deposit liabilities                                                 | —                         | —             | 1,500                                      | —                   | 1,500               |
| Net realized and unrealized gain on investments and derivatives                             | —                         | —             | (1,692)                                    | —                   | (1,692)             |
| Net unrealized gain on investment in related party investment fund                          | —                         | —             | (146,991)                                  | —                   | (146,991)           |
| Net foreign exchange losses                                                                 | —                         | —             | 2,518                                      | —                   | 2,518               |
| Amortization of premium and accretion of discount, net                                      | —                         | 44            | 278                                        | —                   | 322                 |
| <b>Changes in assets and liabilities:</b>                                                   |                           |               |                                            |                     |                     |
| Reinsurance balances receivable                                                             | —                         | —             | (154,205)                                  | —                   | (154,205)           |
| Deferred acquisition costs, net                                                             | —                         | —             | (29,266)                                   | —                   | (29,266)            |
| Unearned premiums ceded                                                                     | —                         | —             | 1,413                                      | —                   | 1,413               |
| Loss and loss adjustment expenses recoverable                                               | —                         | —             | (720)                                      | —                   | (720)               |
| Other assets                                                                                | 585                       | (418)         | 248                                        | —                   | 415                 |
| Interest and dividends receivable, net                                                      | —                         | (2,040)       | (575)                                      | —                   | (2,615)             |
| Unearned premium reserves                                                                   | —                         | —             | 164,416                                    | —                   | 164,416             |
| Loss and loss adjustment expense reserves                                                   | —                         | —             | 44,838                                     | —                   | 44,838              |
| Accounts payable and accrued expenses                                                       | 571                       | (40)          | 1,433                                      | —                   | 1,964               |
| Reinsurance balances payable                                                                | —                         | —             | 6,720                                      | —                   | 6,720               |
| Amounts due from (to) affiliates                                                            | 4,375                     | (75)          | (4,300)                                    | —                   | —                   |
| Net cash provided by (used in) operating activities                                         | 3,068                     | (4,101)       | 24,023                                     | —                   | 22,990              |
| <b>Investing activities</b>                                                                 |                           |               |                                            |                     |                     |
| Proceeds from redemptions from related party investment fund                                | —                         | —             | 10,000                                     | —                   | 10,000              |
| Contributions to related party investment fund, including subscription receivable           | —                         | —             | (70,000)                                   | —                   | (70,000)            |
| Change in participation agreement with related party investment fund                        | —                         | —             | (776)                                      | —                   | (776)               |
| Purchases of investments                                                                    | (3,000)                   | —             | —                                          | —                   | (3,000)             |
| Change in due to/from brokers, net                                                          | —                         | —             | 774                                        | —                   | 774                 |
| Contributed capital to subsidiaries                                                         | (15,000)                  | 15,000        | —                                          | —                   | —                   |
| Contributed capital from parent and/or subsidiaries                                         | —                         | (15,000)      | 15,000                                     | —                   | —                   |
| Net cash used in investing activities                                                       | (18,000)                  | —             | (45,002)                                   | —                   | (63,002)            |
| <b>Financing activities</b>                                                                 |                           |               |                                            |                     |                     |
| Taxes paid on withholding shares                                                            | (68)                      | —             | —                                          | —                   | (68)                |
| Decrease in deposit liabilities, net                                                        | —                         | —             | (2,094)                                    | —                   | (2,094)             |
| Dividend received by (paid to) parent                                                       | 15,000                    | 4,100         | (19,100)                                   | —                   | —                   |
| Net cash provided by (used in) financing activities                                         | 14,932                    | 4,100         | (21,194)                                   | —                   | (2,162)             |
| Net decrease in cash, cash equivalents and restricted cash                                  | —                         | (1)           | (42,173)                                   | —                   | (42,174)            |
| Cash, cash equivalents and restricted cash at beginning of period                           | —                         | 187           | 713,150                                    | —                   | 713,337             |
| <b>Cash, cash equivalents and restricted cash at end of period</b>                          | <b>\$ —</b>               | <b>\$ 186</b> | <b>\$ 670,977</b>                          | <b>\$ —</b>         | <b>\$ 671,163</b>   |



**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

| <b>For the three months ended March 31, 2018</b>                                          | <b>Third<br/>Point Re</b> | <b>TPRUSA</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|-------------------------------------------------------------------------------------------|---------------------------|---------------|--------------------------------------------|---------------------|---------------------|
| <b>Operating activities</b>                                                               |                           |               |                                            |                     |                     |
| Net loss                                                                                  | \$ (26,001)               | \$ (3,214)    | \$ (22,761)                                | \$ 25,985           | \$ (25,991)         |
| Adjustments to reconcile net loss to net cash provided by (used) in operating activities: |                           |               |                                            |                     |                     |
| Equity in (earnings) losses of subsidiaries                                               | 24,358                    | 1,609         | 18                                         | (25,985)            | —                   |
| Share compensation expense                                                                | 141                       | —             | 1,104                                      | —                   | 1,245               |
| Net interest expense on deposit liabilities                                               | —                         | —             | 1,261                                      | —                   | 1,261               |
| Net realized and unrealized gain on investments and derivatives                           | —                         | —             | (2,830)                                    | —                   | (2,830)             |
| Net foreign exchange losses                                                               | —                         | —             | 6,611                                      | —                   | 6,611               |
| Amortization of premium and accretion of discount, net                                    | —                         | 44            | 2,578                                      | —                   | 2,622               |
| <b>Changes in assets and liabilities:</b>                                                 |                           |               |                                            |                     |                     |
| Reinsurance balances receivable                                                           | —                         | —             | (208,414)                                  | —                   | (208,414)           |
| Deferred acquisition costs, net                                                           | —                         | —             | (50,110)                                   | —                   | (50,110)            |
| Unearned premiums ceded                                                                   | —                         | —             | (14,012)                                   | —                   | (14,012)            |
| Loss and loss adjustment expenses recoverable                                             | —                         | —             | (219)                                      | —                   | (219)               |
| Other assets                                                                              | 144                       | —             | (703)                                      | —                   | (559)               |
| Interest and dividends receivable, net                                                    | —                         | (2,040)       | 421                                        | —                   | (1,619)             |
| Unearned premium reserves                                                                 | —                         | —             | 235,240                                    | —                   | 235,240             |
| Loss and loss adjustment expense reserves                                                 | —                         | —             | 34,392                                     | —                   | 34,392              |
| Accounts payable and accrued expenses                                                     | 281                       | (435)         | (23,228)                                   | —                   | (23,382)            |
| Reinsurance balances payable                                                              | —                         | —             | 9,025                                      | —                   | 9,025               |
| Performance fees payable to related party                                                 | —                         | —             | 20                                         | —                   | 20                  |
| Amounts due from (to) affiliates                                                          | 24,980                    | 4,035         | (29,015)                                   | —                   | —                   |
| Net cash provided by (used in) operating activities                                       | 23,903                    | (1)           | (60,622)                                   | —                   | (36,720)            |
| <b>Investing activities</b>                                                               |                           |               |                                            |                     |                     |
| Purchases of investments                                                                  | —                         | —             | (1,032,890)                                | —                   | (1,032,890)         |
| Proceeds from sales and maturities of investments                                         | —                         | —             | 1,221,157                                  | —                   | 1,221,157           |
| Purchases of investments to cover short sales                                             | —                         | —             | (300,467)                                  | —                   | (300,467)           |
| Proceeds from short sales of investments                                                  | —                         | —             | 277,174                                    | —                   | 277,174             |
| Change in due to/from brokers, net                                                        | —                         | —             | 8,818                                      | —                   | 8,818               |
| Decrease in securities sold under an agreement to repurchase                              | —                         | —             | (10,551)                                   | —                   | (10,551)            |
| Net cash provided by investing activities                                                 | —                         | —             | 163,241                                    | —                   | 163,241             |
| <b>Financing activities</b>                                                               |                           |               |                                            |                     |                     |
| Taxes paid on withholding shares                                                          | (74)                      | —             | —                                          | —                   | (74)                |
| Purchases of Third Point Re common shares under share repurchase program                  | (23,837)                  | —             | —                                          | —                   | (23,837)            |
| Decrease in deposit liabilities, net                                                      | —                         | —             | (614)                                      | —                   | (614)               |
| Change in total noncontrolling interests in related party, net                            | —                         | —             | (101,746)                                  | —                   | (101,746)           |
| Net cash used in financing activities                                                     | (23,911)                  | —             | (102,360)                                  | —                   | (126,271)           |
| Net increase (decrease) in cash, cash equivalents and restricted cash                     | (8)                       | (1)           | 259                                        | —                   | 250                 |
| Cash, cash equivalents and restricted cash at beginning of period                         | 9                         | 199           | 549,125                                    | —                   | 549,333             |
| <b>Cash, cash equivalents and restricted cash at end of period</b>                        | <b>\$ 1</b>               | <b>\$ 198</b> | <b>\$ 549,384</b>                          | <b>\$ —</b>         | <b>\$ 549,583</b>   |

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

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

*The statements in this discussion regarding 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, the risks and uncertainties described in "Risk Factors" and "Special Note Regarding Forward-Looking Statements". Our actual results may differ materially from those contained in or implied by any forward looking statements.*

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

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

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

- 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, withdrawal of ratings or change in rating outlook 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;
- technology breaches or failures, including cyber-attacks;
- lack of control over TP Fund;
- lack of control over the allocation and performance of TP Fund's investment portfolio;
- dependence on Third Point LLC to implement TP Fund's investment strategy;
- limited ability to withdraw our capital accounts from TP Fund;

- decline in revenue due to poor performance of TP Fund's investment portfolio;
- TP Fund's investment strategy involves risks that are greater than those faced by competitors;
- termination by Third Point LLC of our or TP Fund's 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 TP Fund's investment portfolio;
- trading restrictions being placed on TP Fund's investments;
- limited termination provisions in our investment management agreements;
- limited liquidity and lack of valuation data on certain TP Fund's 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 "Risk Factors" in our most recent Annual Report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission.

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

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

Unless the context otherwise indicates or requires, the terms "we," "our," "us," and the "Company," as used in this report, refer to Third Point Reinsurance Ltd. ("Third Point Re") 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.

## **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 and the investment manager of Third Point Enhanced LP (“TP Fund”). 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. Non-underwriting income and expenses, presented as a reconciliation to our consolidated results, include: net investment income, certain general and administrative expenses related to corporate activities, interest expense, foreign exchange losses and income tax expense.

## **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 premium 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 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. However, we have incrementally expanded the lines of business and forms of reinsurance on which we focus that have increased risk profiles where we believe the higher expected margins adequately compensate us for the increased risk. We have begun writing some excess of loss casualty covers in lines of business where we have historically assumed only quota share exposure. We began expanding into new specialty lines of business in 2018 and wrote \$41.5 million of new property catastrophe business in the first quarter of 2019.

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**

As described in our Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Form 10-K”), we transitioned to a new investment account structure in 2018. Under the new investment account structure, Third Point LLC serves as investment manager for TP Fund as well as for our collateral assets.

## **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.

Although the industry experienced significant losses in 2017 and 2018, there continues to be significant underwriting capacity available and market conditions remain challenging. While many market participants were hopeful that the significant catastrophe losses in recent years would lead to improvements in pricing, terms and conditions within the property catastrophe line of business with the possibility of improvements in other reinsurance lines, improvements have been modest. Catastrophe pricing on loss impacted programs has improved but pricing on other, non-loss impacted contracts has remained broadly flat. Outside of property catastrophe reinsurance, we are seeing some signs of improvement in reinsurance terms and conditions and underlying pricing in the capital relief structures on which we have historically focused. 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. However, we have incrementally expanded the lines of business and forms of reinsurance on which we focus to help drive our combined ratio below 100%. 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 the increased risk. We have begun writing some excess of loss casualty covers in lines of business where we have historically assumed only quota share exposure. We also began expanding into new specialty lines of business in 2018 and started writing a modest amount of property catastrophe business in 2019. We plan to continue to expand into these lines of business and to evaluate and consider pursuing opportunities in other new lines of reinsurance business in 2019. During 2018 and 2019, we added experienced senior underwriters with strong market relationships and expertise in various specialty lines of business to our team.

In addition, we may, from time to time, invest in managing general agents or other insurance vehicles as part of our ongoing strategy to leverage our underwriting and capital markets expertise to structure and offer capital alternatives in numerous forms and combinations, including equity, debt and reinsurance offerings.

### **Key Performance Indicators**

We believe that by combining a disciplined and opportunistic approach to reinsurance underwriting with investment results from the active management of TP Fund's investment portfolio, in which we invest, 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, basic book value per share, diluted book value per share, growth in diluted book value per share, and return on beginning shareholders' equity attributable to Third Point Re common shareholders.

The table below shows the key performance indicators for our consolidated business for the three months ended March 31, 2019 and 2018:

|                                                                                                            | 2019                                                    | 2018       |
|------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|------------|
|                                                                                                            | (\$ in thousands, except for per share data and ratios) |            |
| Key underwriting metrics for Property and Casualty Reinsurance segment:                                    |                                                         |            |
| Net underwriting loss <sup>(1)</sup>                                                                       | \$ (5,740)                                              | \$ (6,363) |
| Combined ratio <sup>(1)</sup>                                                                              | 103.8%                                                  | 104.5 %    |
|                                                                                                            |                                                         |            |
| Key investment return metrics:                                                                             |                                                         |            |
| Net investment income (loss)                                                                               | \$ 154,953                                              | \$ (2,208) |
| Net investment return on investments managed by Third Point LLC                                            | 7.2%                                                    | (0.2)%     |
|                                                                                                            |                                                         |            |
| Key shareholders' value creation metrics:                                                                  |                                                         |            |
| Basic book value per share <sup>(2) (3)</sup>                                                              | \$ 14.59                                                | \$ 13.15   |
| Diluted book value per share <sup>(2) (3)</sup>                                                            | \$ 13.95                                                | \$ 12.98   |
| Change in diluted book value per share <sup>(2)</sup>                                                      | 7.5%                                                    | (1.7)%     |
| Return on beginning shareholders' equity attributable to Third Point Re common shareholders <sup>(2)</sup> | 11.0%                                                   | (1.6)%     |

(1) See Note 18 to the accompanying condensed 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".

(3) Prior year comparatives represent amounts as of December 31, 2018.

### ***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)***

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 TP Fund's investment manager and the amount of investable cash generated by our reinsurance operations. Net investment income (loss) also includes the investment income (loss) on collateral assets managed by Third Point LLC. Pursuant to the investment management agreement between TP Fund and Third Point LLC, Third Point LLC is required to manage TP Fund's investment portfolio on a basis that is substantially equivalent to Third Point Offshore Master Fund L.P., subject to certain conditions set forth in TP Fund's 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. The LPA allows us to withdraw cash from the TP Fund at any calendar month end or at the close of business each Wednesday during a month with not less than three days' notice to pay claims, not less than five days' notice to pay expenses and with not less than three days' notice in order to satisfy the requirements of A.M. Best. Net investment income (loss) is net of investment fee expenses, which include performance and management fees to related parties.

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

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 March 31, 2019, basic book value per share was \$14.59, representing an increase of \$1.44 per share, or 11.0%, from \$13.15 per share as of December 31, 2018. As of March 31, 2019, diluted book value per share was \$13.95, representing an increase of \$0.97 per share, or 7.5%, from \$12.98 per share as of December 31, 2018. The increases were primarily due to net income in the current year period. The increase in diluted book value per share was partially offset by the dilution of options and warrants as a result of the share price being above the strike price for warrants and certain options as of March 31, 2019, compared to being below the strike price on all options and warrants as of December 31, 2018.

### ***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 three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily due to a net income in the current year period.

## **Consolidated Results of Operations—Three months ended March 31, 2019 and 2018:**

The following table sets forth the key items discussed in the consolidated results of operations section, and the period over period change, for the three months ended March 31, 2019 and 2018:

|                                                                   | <b>2019</b>              | <b>2018</b> | <b>Change</b> |
|-------------------------------------------------------------------|--------------------------|-------------|---------------|
|                                                                   | <b>(\$ in thousands)</b> |             |               |
| Net underwriting loss                                             | \$ (5,740)               | \$ (6,363)  | \$ 623        |
| Net investment income (loss)                                      | 154,953                  | (2,208)     | 157,161       |
| Net investment return on investments managed by Third Point LLC   | 7.2%                     | (0.2)%      | 7.4%          |
| Corporate expenses                                                | (5,908)                  | (4,657)     | (1,251)       |
| Other expenses                                                    | (4,125)                  | (3,995)     | (130)         |
| Interest expense                                                  | (2,029)                  | (2,029)     | —             |
| Foreign exchange losses                                           | (2,518)                  | (6,611)     | 4,093         |
| Income tax expense                                                | (1,718)                  | (128)       | (1,590)       |
| Net income (loss) available to Third Point Re common shareholders | \$ 132,915               | \$ (26,001) | \$ 158,916    |

A key driver of our consolidated 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 (loss) and therefore in our consolidated results.

## Investment Results

### Investment Portfolio

The following tables present the total long, short and net exposure of our net investments managed by Third Point LLC as of March 31, 2019 and December 31, 2018 by strategy and geography.

|        | March 31, 2019 |       |     | December 31, 2018 |       |      |
|--------|----------------|-------|-----|-------------------|-------|------|
|        | Long           | Short | Net | Long              | Short | Net  |
| Equity | 59%            | (26)% | 33% | 54%               | (22)% | 32 % |
| Credit | 20%            | (2)%  | 18% | 18%               | (4)%  | 14 % |
| Other  | 7%             | — %   | 7%  | 9%                | (1)%  | 8 %  |
|        | 86%            | (28)% | 58% | 81%               | (27)% | 54 % |

|                                | March 31, 2019 |       |     | December 31, 2018 |       |      |
|--------------------------------|----------------|-------|-----|-------------------|-------|------|
|                                | Long           | Short | Net | Long              | Short | Net  |
| Americas                       | 72%            | (20)% | 52% | 70%               | (21)% | 49 % |
| Europe, Middle East and Africa | 9%             | (3)%  | 6%  | 11%               | (3)%  | 8 %  |
| Asia                           | 5%             | (5)%  | —%  | —%                | (3)%  | (3)% |
|                                | 86%            | (28)% | 58% | 81%               | (27)% | 54 % |

In managing TP Fund's 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 TP Fund's 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 following is a summary of the net investment return by investment strategy on investments managed by Third Point LLC for the three months ended March 31, 2019 and 2018.

The net investment return for the three months ended March 31, 2019 includes our investment in TP Fund and collateral assets managed by Third Point LLC. The net investment return for the three months ended March 31, 2018 includes our investment accounts, inclusive of collateral assets managed by Third Point LLC, prior to the change in the investment management structure described in Company's 2018 Form 10-K.

|                                                                 | 2019  |        |       | 2018   |        |        |
|-----------------------------------------------------------------|-------|--------|-------|--------|--------|--------|
|                                                                 | Long  | Short  | Net   | Long   | Short  | Net    |
| Equity                                                          | 8.4%  | (2.4)% | 6.0%  | (0.7)% | — %    | (0.7)% |
| Credit                                                          | 0.9%  | (0.3)% | 0.6%  | 0.4 %  | (0.1)% | 0.3 %  |
| Other                                                           | 0.7%  | (0.1)% | 0.6%  | 0.5 %  | (0.3)% | 0.2 %  |
| Net investment return on investments managed by Third Point LLC | 10.0% | (2.8)% | 7.2%  | 0.2 %  | (0.4)% | (0.2)% |
| S&P 500 Total Return Index                                      |       |        | 13.6% |        |        | (2.5)% |

Net investment return represents the return on our net investments managed by Third Point LLC, net of fees. The net investment return on net investments managed by Third Point LLC is the percentage change in value of a dollar invested over the reporting period on our net investment assets managed by Third Point LLC. Effective August 31, 2018, we transitioned from our separately managed account structure to investing in TP Fund. In addition, the Collateral Assets are managed by Third Point LLC from the effective date. See our 2018 Form 10-K for additional information. The net investment return reflects the combined results of investments managed on behalf of Third Point Re BDA and Third Point Re USA prior to the transition date of August 31, 2018 and the investment in TP Fund and collateral assets from the date of transition. Prior to the transition date of August 31, 2018, the stated return was net of noncontrolling interests and net of withholding taxes, which were presented as a component of income tax expense in our consolidated statements of income. Net investment return is the key indicator by which we measure the performance of Third Point LLC, TP Fund's investment manager.

For the three months ended March 31, 2019, gains from the long equity portfolio drove positive returns for the quarter. Within the equities strategy, investments in the healthcare, consumer, and industrials sectors led gains. Many of the top contributors to profits were companies with which the investment manager has engaged in an active or constructive manner. The macroeconomic and other portfolio added profits due to investments within the strategy including risk arbitrage. The credit strategy also added to performance with positive attribution from investments in asset backed securities, distressed corporate credit and sovereign credit.

The net investment results for the three months ended March 31, 2018, were primarily attributable to losses in the long equity portfolio partially offset by gains in structured credit and hedges. Within the long equity portfolio, performance within the Consumer and Industrials sectors detracted from positive returns in the financials and technology, media and telecommunications sectors. Within credit, the structured credit generated gains amidst a favorable backdrop for the U.S. mortgage-backed securities in the portfolio. The macro and other strategies contributed gains through profitable hedges.

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.

The other key changes in our consolidated results for the three months ended March 31, 2019 compared to the prior year period were primarily due to the following:

### ***Corporate Expenses***

General and administrative expenses allocated to corporate expenses include allocations of payroll and related costs for certain employees for non-underwriting activities. 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 three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily due to an increase in our legal and accounting expenses, amortization of setup costs associated with the unsecured letter of credit facility and increase in corporate activities resulting in higher payroll related costs allocated to corporate expenses.

### ***Other Expenses (Income)***

Other expenses are comprised of expenses relating to interest crediting features in certain reinsurance and deposit contracts. The increase in other expenses for the three months ended March 31, 2019 was primarily due to revised estimates of underlying assumptions on our deposit liability contracts.

### ***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 related to the senior notes.

### ***Foreign Exchange Losses***

The foreign exchange losses 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 weakened during the current year period compared to the prior year period. 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 current year period were offset by corresponding foreign exchange gains included in net investment income 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 12 to our condensed consolidated financial statements for additional information regarding income taxes. The increase in income tax expense for the three months ended March 31, 2019 was primarily the result of an increase in taxable income generated by our U.S. subsidiaries.

### Segment Results—Three months ended March 31, 2019 and 2018.

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.

#### *Property and Casualty Reinsurance*

The following table sets forth net underwriting results and ratios, and the period over period changes for the Property and Casualty Reinsurance segment for the three months ended March 31, 2019 and 2018:

|                                                 | 2019              | 2018              | Change        |
|-------------------------------------------------|-------------------|-------------------|---------------|
|                                                 | (\$ in thousands) |                   |               |
| Gross premiums written                          | \$ 319,591        | \$ 378,360        | \$ (58,769)   |
| Gross premiums ceded                            | (712)             | (14,646)          | 13,934        |
| Net premiums earned                             | 153,050           | 142,486           | 10,564        |
| Loss and loss adjustment expenses incurred, net | 95,068            | 92,620            | 2,448         |
| Acquisition costs, net                          | 57,498            | 51,405            | 6,093         |
| General and administrative expenses             | 6,224             | 4,824             | 1,400         |
| Net underwriting income (loss)                  | <u>\$ (5,740)</u> | <u>\$ (6,363)</u> | <u>\$ 623</u> |
| <b>Underwriting ratios (1):</b>                 |                   |                   |               |
| Loss ratio                                      | 62.1%             | 65.0%             | (2.9)%        |
| Acquisition cost ratio                          | 37.6%             | 36.1%             | 1.5 %         |
| Composite ratio                                 | 99.7%             | 101.1%            | (1.4)%        |
| General and administrative expense ratio        | 4.1%              | 3.4%              | 0.7 %         |
| <b>Combined ratio</b>                           | <u>103.8%</u>     | <u>104.5%</u>     | <u>(0.7)%</u> |

(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:

- The majority of our gross written premium is derived from 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 may 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 three months ended March 31, 2019 and 2018:

|                                         | 2019              |         | 2018       |        |
|-----------------------------------------|-------------------|---------|------------|--------|
|                                         | (\$ in thousands) |         |            |        |
| Property                                | \$ 53,981         | 16.9 %  | \$ 369     | 0.1%   |
| Casualty                                | 77,892            | 24.4 %  | 153,220    | 40.5%  |
| Specialty                               | 193,071           | 60.4 %  | 224,771    | 59.4%  |
| Total prospective reinsurance contracts | 324,944           | 101.7 % | 378,360    | 100.0% |
| Retroactive reinsurance contracts       | (5,353)           | (1.7)%  | —          | —%     |
|                                         | \$ 319,591        | 100.0 % | \$ 378,360 | 100.0% |

The decrease in gross premiums written of \$58.8 million, or 15.5%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was driven by:

Factors resulting in decreases:

- We recognized \$81.6 million of premium in the three months ended March 31, 2018 related to contracts that we did not renew in the three months ended March 31, 2019 as a result of underlying pricing, terms and conditions.
- We recognized a net decrease in premium of \$2.8 million in the three months ended March 31, 2019 compared to a net increase of \$53.1 million in the three months ended March 31, 2018 related to the net impact of contract extensions, cancellations and contracts renewed with no comparable premium in the comparable period.
- Changes in renewal premiums for the three months ended March 31, 2019 resulted in a net decrease in premiums of \$0.7 million. 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 increases:

- For the three months ended March 31, 2019, we wrote \$74.1 million of new premium, of which \$55.9 million was property business including \$41.5 million of property catastrophe business, \$13.6 million was casualty business and \$4.6 million was specialty business.
- We recorded net increases in premium estimates relating to prior periods of \$18.4 million and \$13.1 million for the three months ended March 31, 2019 and March 31, 2018, respectively. The increases in premium estimates for the three months ended March 31, 2019 and 2018 were due to several contracts for which clients provided updated projections indicating that they expected to write more business than initially estimated.

#### *Gross Premiums Ceded*

The decrease in gross premiums ceded for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily due to a reduced number of assumed reinsurance mortgage contracts written in the current year period compared to the prior year period and ceded under our in-force mortgage retrocession program.

#### *Net Premiums Earned*

The increase in net premiums earned in the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily due to a higher 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, a higher in-force underwriting portfolio and prior years' reserve development.

The following is a summary of the net impact from loss reserve development for the three months ended March 31, 2019 and 2018:

For the three months ended March 31, 2019, we recognized \$4.0 million, or 2.6 percentage points on the combined ratio, of net favorable prior years' reserve development as a result of decreases in loss reserve estimates, offset by net increases of \$3.7 million, or 2.4 percentage points on the combined ratio, in acquisition costs, resulting in a \$0.3 million or 0.2 percentage points on the combined ratio, improvement in the net underwriting results. The improvement in the net underwriting results was primarily due to the following factors:

- \$7.7 million of net favorable underwriting loss development relating to workers' compensation contracts. The favorable development was the result of better than expected loss experience and was partially offset by;
- \$7.1 million of net adverse underwriting loss development primarily relating to our general liability and multi-line contracts, as a result of worse than expected loss experience.

For the three months ended March 31, 2018, we recognized \$0.6 million, or 0.4 percentage points on the combined ratio, of net favorable prior years' reserve development as a result of decreases in loss reserve estimates, offset by net increases of \$0.1 million, or 0.1 percentage points on the combined ratio, in acquisition costs, resulting in a \$0.5 million, or 0.3 percentage points on the combined ratio, improvement in the net underwriting results. The net underwriting results impact of the favorable loss development was primarily due to the following factors:

- \$2.4 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;
- \$2.1 million of net favorable underwriting loss development from several other contracts, including amortization of deferred gains, as a result of better than expected loss experience; partially offset by
- \$4.0 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 we believe has led to increases in the frequency of claims reported as well as the severity of losses and loss adjustment expenses.

#### *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.

Many 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 increase in acquisition costs, net, for the three months ended March 31, 2019 was primarily due to a change in mix of business and favorable development on one contract in the current year period which had profit commission terms such that the favorable development associated with this contract was entirely offset by a similar increase in acquisition costs.

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

### *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 three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily the result of higher credit facility fees from our new unsecured letter of credit facility in the current year period and payroll related costs primarily due to an increase in the number of employees compared to the prior year period and higher annual incentive plan compensation expense accruals. Our annual incentive plan is based on a formula derived from certain financial performance metrics. Our incentive plan accrual was higher for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 to reflect the better performance of the Company in the period relative to the incentive plan compensation performance metrics.

### **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 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 TP Fund's investment manager, Third Point LLC. A more detailed description of this financial metric is included below. We also refer to other generic performance metrics which are described and explained in this subsection.

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

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

Net investment return represents the return on our net investments managed by Third Point LLC, net of fees. The net investment return on net investments managed by Third Point LLC is the percentage change in value of a dollar invested over the reporting period on our net investment assets managed by Third Point LLC. Effective August 31, 2018, we transitioned from our separately managed account structure to investing in TP Fund. In addition, certain collateral assets supporting reinsurance contracts (the "Collateral Assets") are managed by Third Point LLC from the effective date. See our 2018 Form 10-K for additional information. The net investment return reflects the combined results of investments managed on behalf of Third Point Re BDA and Third Point Re USA prior to the transition date of August 31, 2018 and the investment in TP Fund and collateral assets from the date of transition. Prior to the transition date of August 31, 2018, the stated return was net of noncontrolling interests and net of withholding taxes, which were presented as a component of income tax expense in our condensed consolidated statements of income. Net investment return is the key indicator by which we measure the performance of Third Point LLC, TP Fund's 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, 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 basic and diluted book value per share as of March 31, 2019 and December 31, 2018:

|                                                                            | March 31,<br>2019                                     | December 31,<br>2018 |
|----------------------------------------------------------------------------|-------------------------------------------------------|----------------------|
|                                                                            | (\$ 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    | \$ 1,338,879                                          | \$ 1,204,574         |
| Effect of dilutive warrants issued to founders and an advisor              | 34,950                                                | —                    |
| Effect of dilutive stock options issued to directors and employees         | 49,142                                                | —                    |
| Diluted book value per share numerator:                                    | \$ 1,422,971                                          | \$ 1,204,574         |
| <b>Basic and diluted book value per share denominator:</b>                 |                                                       |                      |
| Common shares outstanding                                                  | 94,292,914                                            | 93,639,610           |
| Unvested restricted shares                                                 | (2,524,109)                                           | (2,025,113)          |
| Basic book value per share denominator:                                    | 91,768,805                                            | 91,614,497           |
| Effect of dilutive warrants issued to founders and an advisor              | 3,494,979                                             | —                    |
| Effect of dilutive stock options issued to directors and employees         | 4,914,229                                             | —                    |
| Effect of dilutive restricted shares issued to directors and employees (1) | 1,848,791                                             | 1,209,285            |
| Diluted book value per share denominator:                                  | 102,026,804                                           | 92,823,782           |
| <b>Basic book value per share</b>                                          | <b>\$ 14.59</b>                                       | <b>\$ 13.15</b>      |
| <b>Diluted book value per share</b>                                        | <b>\$ 13.95</b>                                       | <b>\$ 12.98</b>      |

- (1) As of March 31, 2019, the effect of dilutive restricted shares issued to directors and employees was comprised of 293,254 restricted shares with a service condition only and 1,555,537 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 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. When we repurchase our common shares, we also adjust the beginning shareholders' equity attributable to Third Point Re common shareholders for the impact of the shares repurchased on a weighted average basis. For a period where there was a loss, this adjustment decreased the stated returns on beginning shareholders' equity and for a period where there was a gain, this adjustment increased the stated returns on beginning shareholders' equity.

Return on beginning shareholders' equity attributable to Third Point Re common shareholders for the three months ended March 31, 2019 and 2018 was calculated as follows:

|                                                                                                        | 2019              | 2018         |
|--------------------------------------------------------------------------------------------------------|-------------------|--------------|
|                                                                                                        | (\$ in thousands) |              |
| Net income (loss) available to Third Point Re common shareholders                                      | \$ 132,915        | \$ (26,001)  |
| Shareholders' equity attributable to Third Point Re common shareholders - beginning of period          | 1,204,574         | 1,656,089    |
| Impact of weighting related to shareholders' equity from shares repurchased                            | —                 | (3,243)      |
| Adjusted shareholders' equity attributable to Third Point Re common shareholders - beginning of period | \$ 1,204,574      | \$ 1,652,846 |
| Return on beginning shareholders' equity attributable to Third Point Re common shareholders            | 11.0%             | (1.6)%       |

### ***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 18 to our condensed 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 18 to our condensed consolidated financial statements.

### **Liquidity and Capital Resources**

#### ***Liquidity Requirements***

Third Point Re is a holding company and has no substantial operations of its own. Its cash needs primarily consist of the payment of corporate expenses. Its assets consist primarily of its investments in subsidiaries. Third Point Re's ability to pay expenses or dividends or return capital to shareholders will depend upon the availability of dividends or other statutorily permissible distributions from those subsidiaries. Cash at the subsidiaries 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. 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. For a further discussion of the various restrictions on our ability and our Bermuda subsidiaries' ability to pay dividends, see Part I, Item 1 "Business - Regulation" in our 2018 Annual Report on Form 10-K filed with the SEC.

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.



### *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 10 to our condensed consolidated financial statements for detailed information on our Senior Notes.

Third Point Re may also require cash to fund share repurchases. See Note 13 to our condensed consolidated financial statements for detailed information on our share repurchases.

For additional commitments and contingencies that may affect our liquidity requirements see Note 17 to our condensed consolidated financial statements.

### *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.

See our 2018 Form 10-K for information regarding the LPA and transition of our investment structure from a separate account structure to TP Fund. We expect our overall investment exposures, returns, fees paid to Third Point LLC and TP GP as well as the investment guidelines, liquidity and redemption rights to be generally similar under the LPA and TP Fund IMA compared to what would have been expected under the separate accounts managed under the JV Agreements, assuming similar underlying investment portfolio returns and exposure levels. However, there can be no assurance of such results.

TP Fund's investment portfolio is concentrated in tradeable securities and is marked to market each day. Pursuant to the investment guidelines as specified in the LPA, at least 60% of our portfolio must be invested in securities of publicly traded companies and governments of Organization of Economic Co-operation and Development high income countries, asset-backed securities, cash, cash equivalents and gold and other precious metals. We may withdraw all or a portion of our capital account balance from TP Fund at any calendar month end or at the close of business on each Wednesday during a month, 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. We believe the liquidity profile of the net investments underlying the TP Fund, the Company's rights under the LPA to withdraw from the TP Fund and the operating cash on hand will provide us with sufficient liquidity to manage our operations.

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 three months ended March 31, 2019 and 2018 were as follows:

|                                                                       | 2019              | 2018              |
|-----------------------------------------------------------------------|-------------------|-------------------|
|                                                                       | (\$ in thousands) |                   |
| Net cash provided by (used in) operating activities                   | \$ 22,990         | \$ (36,720)       |
| Net cash provided by (used in) investing activities                   | (63,002)          | 163,241           |
| Net cash used in financing activities                                 | (2,162)           | (126,271)         |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (42,174)          | 250               |
| Cash, cash equivalents and restricted cash at beginning of period     | 713,337           | 549,333           |
| Cash, cash equivalents and restricted cash at end of period           | <u>\$ 671,163</u> | <u>\$ 549,583</u> |

#### *Operating Activities*

Cash flows from operating activities generally represent net premiums collected less loss and loss adjustment expenses, acquisition costs and general and administrative expenses paid.

The increase in cash flows from operating activities in the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily due to higher net reinsurance receipts, corresponding to premium receipts less losses paid and acquisition costs paid partially offset by higher general and administrative expenses paid.

Excess cash generated from our operating activities is typically then invested by Third Point LLC into either the TP Fund or collateral assets. The amount of net reinsurance receipt can vary significantly from period to period depending on the timing, type and size of reinsurance contracts we bind.

#### *Investing Activities*

Cash flows provided by (used in) investing activities primarily reflects investment activities in our separate account investment structure prior to the change in investment account structure and the net cash contributions to TP Fund after such change.

Cash flows used in investing activities for the three months ended March 31, 2019 primarily relates to contributions to TP Fund from cash flows from operations.

Cash flows provided by investing activities for the three months ended March 31, 2018 primarily relates to proceeds from the sale of certain investments to fund cash flows from operations, net withdrawals from noncontrolling interests and share repurchases.

#### *Financing Activities*

Cash flows used in financing activities for the three months ended March 31, 2019 consisted of \$2.1 million from payments on deposit liability contracts. Cash flows used in financing activities for the three months ended March 31, 2018 consisted of \$101.7 million of net withdrawals from total noncontrolling interests and \$23.8 million for shares repurchased.

For the period from inception until March 31, 2019, 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 condensed consolidated financial statements for additional information on restricted cash, cash equivalents and investments.

Restricted cash and cash equivalents and restricted investments increased by \$9.1 million, or 1.1%, to \$857.9 million as of March 31, 2019 from \$848.8 million as of December 31, 2018. The increase was primarily due to an increase in the number of reinsurance contracts that required collateral. In addition, we invest 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 condensed consolidated balance sheets and is disclosed as part of restricted investments.

### **Letter of Credit Facilities**

See Note 10 to our condensed consolidated financial statements for additional information regarding our letter of credit facilities.

As of March 31, 2019, \$366.5 million (December 31, 2018 - \$349.2 million) of letters of credit had been issued. 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 a minimum rating from rating agencies. Each restricts issuance of any debt without the consent of the letter of credit provider. Additionally, if an event of default exists, in any of the letter of credit facilities, we could be prohibited from paying dividends. We were in compliance with all of the covenants under the aforementioned facilities as of March 31, 2019.

### ***Cash Secured Letter of Credit Agreements***

Under the cash secured letter of credit facilities, we provide collateral that consists of cash and cash equivalents. As of March 31, 2019, total cash and cash equivalents with a fair value of \$208.5 million (December 31, 2018 - \$204.0 million) was pledged as collateral against the letters of credit issued. Prior to the change in the investment account structure, our ability to post collateral securing letters of credit and certain reinsurance contracts depended in part on our ability to borrow against certain assets in our investment accounts through prime brokerage arrangements. As a result of the change in our investment account structure, we no longer borrow from prime brokers to post cash collateral for cash secured letter of credit agreements but hold sufficient cash to post collateral securing letters of credit and certain reinsurance contracts outside of our investments in TP Fund. See our 2018 Form 10-K for additional information regarding the impact of the investment restructuring including the investment of collateral by Third Point LLC under the Collateral IMA.

### ***Unsecured Revolving Credit and Letter of Credit Facility Agreement***

On July 31, 2018, Third Point Re, Third Point Re BDA and Third Point Re USA entered into a one-year, \$200.0 million Unsecured Revolving Credit and letter of Credit Facility Agreement with various financial institutions (the "Credit Agreement") to support obligations in connection with our reinsurance business written by Third Point Re BDA and Third Point Re USA. The Credit Agreement expires on July 30, 2019. The Credit Agreement is fully and unconditionally guaranteed by Third Point Re.

### **Financial Condition**

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

As of March 31, 2019, total shareholders' equity was \$1,338.9 million, compared to \$1,204.6 million as of December 31, 2018. The increase was primarily due to net income available to Third Point Re common shareholders of \$132.9 million.

## ***Investments***

As of March 31, 2019, total cash and net investments managed by Third Point LLC was \$2,338.4 million, compared to \$2,134.1 million as of December 31, 2018. The increase was primarily due to net investment income on net investments managed by Third Point LLC of \$154.7 million and net contributions of \$46.9 million.

### **Contractual Obligations**

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

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

We 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.

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

For a summary of our significant accounting and reporting policies, please refer to Note 2, “Significant accounting policies”, included in our 2018 Form 10-K.

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

There have been no material changes in our critical accounting estimates for the three months ended March 31, 2019. Refer to Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations”, included in our 2018 Form 10-K.

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

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

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

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

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

As of March 31, 2019, net investments managed by Third Point LLC, including investments underlying the TP Fund, 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 TP Fund's investment portfolio. As of March 31, 2019, a 10% decline in the value of all equity and equity-linked derivatives would result in a loss to the Company of \$80.1 million, or 3.4% of 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 four gross premiums written from inception, \$494.8 million, or 12.2%, were written in currencies other than the U.S. dollar. As of March 31, 2019, loss and loss adjustment expense reserves included \$222.9 million (December 31, 2018 - \$223.2 million) and net reinsurance balances receivable included \$81.7 million (December 31, 2018 - \$82.4 million) in foreign currencies. These foreign currency liability exposures were generally offset by foreign currencies held in trust accounts of \$163.0 million as of March 31, 2019 (December 31, 2018 - \$165.7 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 of TP Fund***

Third Point LLC continually measures foreign currency exposures in the TP Fund 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 TP Fund 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 within the TP Fund to foreign currency risk through cash, forwards, options and investments in securities denominated in foreign currencies. Foreign currency exchange rate risk is the potential for adverse changes in the U.S. dollar value of investments (long and short) and foreign currency derivative instruments, which we employ from both a speculative and risk management perspective, due to a change in the exchange rate of the foreign currency in which cash and financial instruments are denominated. As of March 31, 2019, through our investment in TP Fund, the Company had total net short exposure to foreign denominated securities representing 9.2% (December 31, 2018 - 11.9%) of the Company's investment in the TP Fund, including cash and cash equivalents of \$215.2 million (December 31, 2018 - \$254.0 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 the TP Fund as of March 31, 2019:

|                  | 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 | \$ 28,596                   | 1.2 %                                             | \$ (28,596)                 | (1.2)%                                            |
| Swiss Franc      | (8,638)                     | (0.4)%                                            | 8,638                       | 0.4 %                                             |
| Other            | 1,562                       | 0.1 %                                             | (1,562)                     | (0.1)%                                            |
| Total            | \$ 21,520                   | 0.9 %                                             | \$ (21,520)                 | (0.9)%                                            |

### Interest Rate Risk

Our net investments managed by Third Point LLC, including investments underlying the TP Fund and Collateral Assets, includes interest rate sensitive securities, such as 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 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 net investments as managed by Third Point LLC, including investments underlying the TP Fund and Collateral Assets. However, Third Point LLC 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 net investments managed by Third Point LLC, including investments underlying the TP Fund and Collateral Assets, as of March 31, 2019:

|                                                               | 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)                          |                                                   |                                            |                                                   |
| U.S. treasuries and sovereign debt instruments <sup>(1)</sup> | \$ (16,238)                                | (0.7)%                                            | \$ 19,112                                  | 0.8 %                                             |
| Asset-backed securities <sup>(2)</sup>                        | (5,240)                                    | (0.2)%                                            | 5,254                                      | 0.2 %                                             |
| Interest rate swaps and derivatives                           | 3,484                                      | 0.2 %                                             | (3,484)                                    | (0.2)%                                            |
| Net exposure to interest rate risk                            | <u>\$ (17,994)</u>                         | <u>(0.7)%</u>                                     | <u>\$ 20,882</u>                           | <u>0.8 %</u>                                      |

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

(2) Includes instruments for which durations are available on March 31, 2019. 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 Third Point LLC periodically monitor TP Fund’s and our Collateral Assets’ 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 the TP Fund, 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 TP Fund’s 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 expect TP Fund will invest in commodities or commodities exposures in the form of derivative contracts from both a speculative and risk management perspective. Generally, market prices of commodities are subject to fluctuation.

As of March 31, 2019, the TP Fund had de minimis (December 31, 2018 - de minimis) commodity exposure.

We and Third Point LLC periodically monitor TP Fund’s 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 through reinsurance contracts with companies that write credit risk insurance. Our portfolio of risk is predominantly U.S. mortgage insurance and mortgage credit risk transfer. We provide our clients in these lines of business with reinsurance protection against credit deterioration, defaults or other types of financial non-performance. Loss experience in these lines of business has been very good but is cyclical and is affected by the state of the general economic environment. We seek to proactively manage the risks associated with these credit-sensitive lines of business by closely monitoring its risk aggregation and by diversifying the underlying risks where possible. We have bought some retrocessional coverage against a subset of these risks. We have written \$380.6 million, or 9.4%, of credit and financial lines premium since inception, of which \$17.3 million was written in the three months ended March 31, 2019. 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 of TP Fund***

We are also exposed to credit risk through our net investments managed by Third Point LLC, including investments underlying the TP Fund. 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 TP Fund's investment portfolio.

In addition, the securities and cash in the TP Fund 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. Third Point LLC 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 TP Fund's credit risk.

As of March 31, 2019 and December 31, 2018, through our investment in TP Fund, 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:

|                         | March 31,<br>2019 | December 31,<br>2018 |
|-------------------------|-------------------|----------------------|
|                         | (\$ in thousands) |                      |
| <b>Assets:</b>          |                   |                      |
| Asset-backed securities | \$ 212,116        | \$ 180,458           |
| Bank debt               | 28,158            | 24,299               |
| Corporate bonds         | 86,497            | 75,131               |
| Municipal bonds         | 21,986            | 25,505               |
| Sovereign debt          | 27,230            | 3,864                |
| Trade claims            | 151               | 167                  |
|                         | <u>\$ 376,138</u> | <u>\$ 309,424</u>    |
| <b>Liabilities:</b>     |                   |                      |
| Corporate bonds         | \$ 7,481          | \$ 11,141            |
|                         | <u>\$ 7,481</u>   | <u>\$ 11,141</u>     |

As of March 31, 2019 and December 31, 2018, through our investment in the TP Fund, ABS holdings were private-label issued, non-investment grade securities, and none of these securities were guaranteed by a government sponsored entity. As of March 31, 2019 and December 31, 2018, the largest concentration of our ABS holdings were as follows:

|                    | March 31, 2019    |         | December 31, 2018 |    |         |        |
|--------------------|-------------------|---------|-------------------|----|---------|--------|
|                    | (\$ in thousands) |         |                   |    |         |        |
| Reperforming loans | \$                | 138,306 | 65.0%             | \$ | 118,595 | 65.7%  |
| Market place loans |                   | 35,870  | 16.9%             |    | 51,623  | 28.6%  |
| Other (1)          |                   | 38,507  | 18.1%             |    | 10,240  | 5.7%   |
|                    | \$                | 212,683 | 100.0%            | \$ | 180,458 | 100.0% |

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

The TP Fund 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, the TP Fund 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 TP Fund may be exposed to significant market and liquidity risks.

### **Liquidity Risk**

Certain of the investments underlying the TP Fund may become illiquid. Disruptions in the credit markets may materially affect the liquidity of certain investments, including ABS, which represent 14.5% (December 31, 2018 - 14.1%) of total net investments managed by Third Point LLC as of March 31, 2019. 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 underlying the TP Fund may be difficult to sell in a timely manner and may have to be disposed of for less than what may otherwise have been possible under normal conditions. As of March 31, 2019, through our investment in the TP Fund, we had \$1,251.8 million



(December 31, 2018 - \$877.2) 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 TP Fund's 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 the TP Fund, 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.

### **Recent Accounting Pronouncements**

Refer to Note 2 to our condensed consolidated financial statements for the three months ended March 31, 2019 included in Item 1 of this Quarterly Report on Form 10-Q for details of recently issued accounting standards.

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

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

Management, with the participation of our Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of March 31, 2019. Based upon this evaluation, our Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2019.

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

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

## **PART II - Other Information**

### **ITEM 1. Legal Proceedings**

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

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

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

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

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2019.

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

The following table summarizes our repurchase of common shares during the three months ended March 31, 2019:

|                                      | (a) Total number of shares purchased | (b) Average price paid per share (1) | (c) Total number of shares purchased as part of publicly announced plans or programs | (d) Maximum number of shares that may yet be purchased under the plans or programs (2) |
|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| January 1, 2019 - January 31, 2019   | —                                    | \$ —                                 | —                                                                                    | \$ 61,295,462                                                                          |
| February 1, 2019 - February 28, 2019 | —                                    | —                                    | —                                                                                    | 61,295,462                                                                             |
| March 1, 2019 - March 31, 2019       | —                                    | —                                    | —                                                                                    | 61,295,462                                                                             |
| Total                                | —                                    | \$ —                                 | —                                                                                    | \$ 61,295,462                                                                          |

(1) Including commissions.

(2) 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 share repurchase program previously authorized on May 4, 2016, will allow the Company to repurchase up to \$200.0 million more of the Company's outstanding common shares in the aggregate.

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**ITEM 5. Other Information**

Not applicable.

## ITEM 6. Exhibits

- 10.3.6.1 [Amendment No. 1 to Employment Agreement between Third Point Reinsurance Ltd. and J. Robert Bredahl, entered into as of April 24, 2019](#)
- 10.6.6 [Form of Employee Restricted Shares Agreement](#)
- 10.32.5 [Amendment No. 5 to Employment Agreement between Third Point Reinsurance Ltd. and Manoj K. Gupta, entered into as of April 1, 2019](#)
- 10.33.1 [Second Amended and Restated Exempted Limited Partnership Agreement of Third Point Enhanced LP, by and among Third Point Advisors LLC, as General Partner, Third Point Reinsurance Company Ltd. and Third Point Reinsurance \(USA\) Ltd., as Limited Partners, and Third Point Reinsurance Ltd., dated as of February 28, 2019 \(incorporated by reference to Exhibit 10.33.1 to the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2019\).](#)
- 31.1 [Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14\(a\) and 15d-14\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14\(a\) and 15d-14\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1\* [Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 32.2\* [Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Extension Labels Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

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

## SIGNATURES

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

Date: May 9, 2019

Third Point Reinsurance Ltd.

/s/ J. Robert Bredahl

J. Robert Bredahl

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Christopher S. Coleman

Christopher S. Coleman

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)