Third Point Reinsurance Ltd.
Form 10-K
February 28, 2019
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2018
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.)
3 Waterloo Lane Pembroke, Bermuda, HM 08	(441) 542 3300
(Address of principal executive offices and zip code)	(Registrant's telephone number)

(Former name, former address and former fiscal year, if changed since last report)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, $0.10 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yesx No¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes¨ Nox
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. Yesx 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). Yesx No¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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	x	Accelerated filer	¨	Non-accelerated filer	¨	Smaller reporting company	¨	Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes¨ Nox
The aggregate market value of the shares of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2018 was $963.2 million.

As of February 25, 2019, there were 93,639,610 common shares of the registrant’s common shares outstanding, including 2,013,080 restricted shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information from certain portions of the registrant’s definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2018.

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INTRODUCTORY NOTE

Unless the context otherwise indicates or requires, as used in this Annual Report on Form 10-K references to “we,” “our,” “us,” and the “Company,” refer to Third Point Reinsurance Ltd. (“Third Point Re” or “TPRE”) and its directly and indirectly owned subsidiaries, including Third Point Reinsurance Company Ltd. (“Third Point Re BDA”) and Third Point Reinsurance (USA) Ltd. (“Third Point Re USA”), as a combined entity, except where otherwise stated or where it is clear that the terms mean only Third Point Re exclusive of its subsidiaries. We refer to Third Point Re (USA) Holdings, Inc. as “TPRUSA”, “Fiscal,” when used in reference to any twelve-month period ended December 31, refers to our fiscal years ended December 31. We also refer to Third Point Enhanced LP as “TP Fund”. Unless otherwise indicated, information contained in this Annual Report is as of December 31, 2018.

Cautionary Note Regarding Forward-Looking Statements

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

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

- results of operations fluctuate and may not be indicative of our prospects;
- more established competitors;
- losses exceeding reserves;
- highly cyclical property and casualty reinsurance industry;
- downgrade or withdrawal of ratings by rating agencies;
- significant decrease in our capital or surplus;
- dependence on key executives;
- dependence on letter of credit facilities that may not be available on commercially acceptable terms;
- inability to service our indebtedness;
- limited cash flow and liquidity due to our indebtedness;
- inability to raise necessary funds to pay principal or interest on debt;
- potential lack of availability of capital in the future;
- credit risk associated with the use of reinsurance brokers;
- future strategic transactions such as acquisitions, dispositions, mergers or joint ventures;
- 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 "Item 1A. Risk Factors" and elsewhere in this Annual Report.

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

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

PART I.

Item 1. Business

Overview

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

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

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

Substantially all of our investable assets are managed by Third Point LLC, which is wholly owned by Daniel S. Loeb, one of our founding shareholders. Third Point LLC is an SEC-registered investment adviser headquartered in New York, managing $14.0 billion in assets as of December 31, 2018. Refer to Note 4 to the consolidated financial statements included in this Form 10-K for details on the investment account structure change that occurred in 2018.

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

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

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

In February 2015, we began reinsurance operations in the United States through Third Point Re USA, a Bermuda company licensed as a Class 4 insurer and a wholly owned operating subsidiary of Third Point Re (USA) Holdings Inc. (“TPRUSA”). TPRUSA is a wholly owned subsidiary of Third Point Re (UK) Holdings Ltd., a private company limited by shares organized under the laws of England and Wales and our direct wholly owned subsidiary. Third Point Re USA provides reinsurance products that are substantially similar to the reinsurance products provided by Third Point Re. Third Point Re USA’s U.S. presence is a strategic component of our overall growth strategy.

Segment Information

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 (loss), certain general and administrative expenses related to corporate activities, interest expense, foreign exchange (gains) losses and income tax (expense) benefit.

Reinsurance Strategy

Our current reinsurance strategy is to build a portfolio that generates margins commensurate with the amount of risk assumed, by targeting sub-sectors of the market and specific situations where reinsurance capacity and alternatives may be constrained and/or we can leverage our underwriting and structuring expertise. To help lower our expected combined ratio, we have recently expanded into property catastrophe reinsurance and other higher margin event risk type covers. The level of volatility in our reinsurance portfolio will be determined by market conditions, but will typically be lower than that of most other reinsurance companies.

Most of our gross written premium has historically been generated from larger customized reinsurance contracts that require significant interaction during the course of negotiations between the client, intermediaries and us. In these situations, we take a lead underwriting position, meaning that we establish the pricing and terms and conditions of the reinsurance contract. In certain instances, we will follow terms and conditions established by our competitors if we believe the opportunity meets our return threshold and helps us balance our reinsurance portfolio. In addition, with the recent expansion into property catastrophe and other event risk reinsurance covers, the number of less customized, syndicated transactions will significantly increase.

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

The majority of our gross written premium is derived from a small number of large contracts and, as a result, individual renewals, non-renewals, cancellations or new business can have a significant impact on premiums recognized in a period. In addition, many of our quota share contracts are subject to significant judgment in the amount of premiums that we expect to recognize. Changes in premium estimates are recorded in the period they are determined and can significantly alter the expected value of a particular reinsurance contract. We also offer customized solutions to our clients, including some of the reserve covers, which are considered retroactive reinsurance contracts, on which we will not have a regular renewal opportunity. Furthermore, we record gross premiums written and earned for reserve covers at the inception of the contract. Together, these factors can impact the comparability of premiums written and earned from period to period and year over year. See Note 24 to our consolidated financial statements included elsewhere in this Annual Report for a breakdown of contracts that individually contributed more than 10% of total gross premiums written.

We intend to manage our book of business by underwriting predominantly a mix of personal and commercial lines. We intend to increase our geographic spread over time; however, we expect that a majority of our reinsurance business will continue to be comprised of U.S. exposure. See Note 24 to our consolidated financial statements included elsewhere in this Annual Report for a breakdown of gross premiums written by domicile of ceding companies.

Many of our clients buy reinsurance from us for capital management purposes, primarily to increase their capacity to write insurance premium, maintain or improve their credit ratings from rating agencies, or to meet regulatory capital requirements. Many of our reinsurance contracts include structural and contractual features that limit the amount of risk assumed by the reinsurer, and therefore carry relatively lower expected margins compared to the excess of loss reinsurance and other more volatile forms of reinsurance in our portfolio.

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 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, we added experienced senior underwriters with strong market relationships to our team and we will continue to expand our underwriting team in 2019. 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.

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The following table provides a breakdown by line and type of business of gross premiums written for the years ended December 31, 2018, 2017 and 2016:

	2018		2017		2016	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
	($ in thousands)					
Property	$9,070	1.6 %	$136,999	21.4 %	$98,334	15.9 %
Workers' Compensation	36,824	6.4 %	33,194	5.2 %	56,069	9.1 %
Auto	66,492	11.5 %	43,424	6.7 %	91,626	14.8 %
Other Casualty	132,473	22.9 %	193,141	30.1 %	65,355	10.6 %
Casualty	235,789	40.8 %	269,759	42.0 %	213,050	34.5 %
Credit & Financial Lines	100,576	17.4 %	34,324	5.4 %	118,707	19.2 %
Multi-line	162,248	28.1 %	63,665	9.9 %	187,283	30.4 %
Other Specialty	(3,651)	(0.7)%	27,522	4.3 %	—	— %
Specialty	259,173	44.8 %	125,511	19.6 %	305,990	49.6 %
Total prospective reinsurance contracts	504,032	87.2 %	532,269	83.0 %	617,374	100.0 %
Retroactive reinsurance contracts	74,220	12.8 %	109,351	17.0 %	—	— %
Total property and casualty reinsurance	$578,252	100.0 %	$641,620	100.0 %	$617,374	100.0 %

Investment Strategy

During the period covered by this report, we transitioned to a new investment account structure, as previously disclosed in our quarterly reports on Form 10-Q for the fiscal quarters ended June 30, 2018 and September 30, 2018. For additional information, see “Change in Investment Account Structure” below, Item 9B. “Other Information” and Note 4 to the consolidated financial statements included in this Form 10-K.

We expect our overall investment exposures, returns, fees paid to Third Point LLC and Third Point Advisors LLC (“TP GP”) to be generally similar under the LPA and TP Fund IMA, each as defined below, compared to what would have been expected under the separate accounts managed under the JV Agreements, as defined below, assuming similar underlying investment portfolio returns and exposure levels. However, there can be no assurance of such results.

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

Third Point LLC has historically favored event-driven situations, in which it believes that a catalyst, either intrinsic or extrinsic, will unlock value or alter the lens through which the greater market values a particular investment. Third

Point LLC attempts to apply this event framework to each of its single security investments and this approach informs the timing and risk of each investment.

Our cash and investment accounts include the collateral assets pertaining to letters of credit and trust accounts securing our obligations under certain reinsurance contracts. Collateral assets are managed by Third Point LLC under the investment management agreement (the “Collateral Assets IMA”), as discussed below under “Collateral Assets IMA”. The collateral assets pertaining to the trusts are invested pursuant to the eligible securities definition of each trust agreement, but typically limit the type of securities that can be invested to U.S. Treasury securities and highly rated sovereign debt. The collateral assets pertaining to collateral accounts securing letters of credit issued under secured letter of credit facilities are required to be held in cash. Refer to Note 13 to our consolidated financial statements included elsewhere in this Annual Report for further details.

Property and Casualty Reinsurance Segment Products

Our underwriting team has extensive experience in underwriting many forms of property, casualty and specialty reinsurance products. We offer reinsurance on a proportional basis where the reinsurer shares liabilities and premiums in a clearly defined proportion with the insurer and pays commissions to cover expenses and share in profitability. We also offer reinsurance on an excess of loss basis, where the reinsurer is paid a premium to cover losses after the insurer has retained a specified deductible.

In the current market for property and casualty reinsurance, which remains highly competitive despite the aggregate catastrophe losses in recent years, we expect that we will continue to write prospective property, casualty and specialty reinsurance structured for surplus relief on a proportional basis, as well as opportunistic or higher margin business written on both a proportional and excess of loss basis.

We also write loss portfolio transfers, reserve covers and other forms of retrospective reserve covers, where we are able to leverage both our investment and underwriting capabilities. We believe there is less competition for the type of reserve covers on which we focus. This is a result of the limited willingness of traditional reinsurers, who have historically experienced lower investment returns on investable assets backing reserves, to pursue these products which rely heavily on investment return to produce compelling economics. Margins on this business are determined through bilateral negotiations and comparing the cost of the reserve covers to non-reinsurance solutions such as raising additional equity or debt capital

We began expanding into new specialty lines of business in 2018 and started writing a portfolio of property catastrophe reinsurance incepting in 2019. We have expanded the lines of business and forms of reinsurance that we write to increase our risk-adjusted returns. We will continue to pursue business opportunities that are syndicated as well as those where we are the sole or primary reinsurer.

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

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

Through December 31, 2018, we wrote reinsurance contracts covering the following product lines:

Property

This line of business primarily consists of homeowners' and commercial reinsurance coverage. We also provide proportional and excess of loss reinsurance that has greater potential volatility, but with commensurately larger expected margins. With respect to risk aggregations, we seek to manage volatility via portfolio construction and client selection.

Homeowners'

Homeowners' reinsurance coverage combines various personal insurance protections, which can include losses occurring to one's home, their contents, loss of use (including additional living expenses), or loss of other personal possessions of the homeowner, as well as liability insurance for accidents that may happen at covered homes or at the hands of the homeowners.

Commercial

Commercial property coverage protects physical assets, including building structure and contents, from perils including fire, explosion, theft and catastrophic risks, such as hurricane, earthquake and flood. Commercial property reinsurance can include large commercial risks, such as office buildings, small commercial risks such as garden apartments, and highly technical or engineered risks, such as oil refineries.

We provide property reinsurance in numerous forms covering both homeowners and commercial risks. Our proportional reinsurance that is structured to provide surplus relief generally covers homeowners and small commercial risks and are structured on a basis that limits the amount of catastrophic losses that can be recovered.

Workers' Compensation

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

Auto

Personal automobile insurance is purchased for individually owned or leased cars designed to provide the insured with financial protection against bodily injury or physical damage resulting from traffic accidents and against liability that could arise from such occurrences. In addition, automobile insurance may offer financial protection against theft or damage of the vehicle from incidents other than collisions. In the United States, each state has different rules and regulations in place for compulsory coverage and the specific terms of automobile insurance policies will vary from company to company. In the United States, we generally focus on providing proportional reinsurance to small, single state and regional carriers that specialize in minimum financial responsibility limits required by their respective states. This business is often referred to as "non-standard" automobile business and was historically underserved by standard markets. More recently, however, standard companies have expanded their appetite for such business and it is written by a broad range of carriers. Outside of the United States, we also focus on the "non-standard" personal automobile segment in the United Kingdom. We have also seen an increase in opportunities that use technology platforms to gain market share in the standard automobile insurance market in the United States. We believe this sector will continue to grow, but we approach these opportunities with caution as there are often significant start-up operational risks that can manifest in poor early underwriting results. When we elect to pursue these opportunities, we try to take a leading role in structuring and incorporate features that attempt to limit losses resulting from start-up risk while building optionality for future reinsurance if, and when, these businesses become successful.

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

Other Casualty

Our Other Casualty line of business is comprised of casualty contracts exposed to more than one type of casualty risk. We write primarily proportional reinsurance in this sector, though we also provide excess of loss coverage. Typically, Other Casualty includes the following lines of business:

Professional Liability

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

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

D&O coverage insures the legal liability of the individual directors and officers of the insured company for certain errors and omissions committed by them. In certain circumstances in which the insured company is not legally permitted to indemnify its directors or officers for a covered loss, the policy's D&O coverage provides for insurance payments to be made directly to the directors or officers. Conversely, if the insured company indemnifies its directors or officers for their loss, the policy's D&O coverage reimburses the insured company for those indemnification payments. In this way, the coverage insures against the insured company's own "indemnification risk."

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

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

Transactional Liability

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

General Liability

General liability insurance policies are issued to business organizations to protect them against liability claims for bodily injury and property damage arising out of premises, operations, products, and completed operations. The premises

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

Credit & Financial Lines

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

Other Specialty

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

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

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

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

Multi-line

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

Retroactive Reinsurance Contracts

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

Marketing

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

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

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

See Note 24 to our consolidated financial statements included elsewhere in this Annual Report for a breakdown of our premiums written by source that individually contributed more than 10% of total gross premiums written.

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

Underwriting

We have established a team of senior underwriters and actuaries to develop and manage our reinsurance business. We believe that their experience, industry presence and long-standing relationships will allow us to tailor our portfolio to specific market segments. Our approach to underwriting will allow us to deploy our capital in a variety of lines of business and to capitalize on opportunities that we believe offer favorable returns on equity over the long term. Our underwriters and actuaries have expertise in a number of lines of business and we will also look to outside consultants to help us with niche areas of expertise when we deem it appropriate. While our pricing and risk selection decisions are based primarily on our view of underwriting profit, we also consider investment income, where applicable and appropriate, in our underwriting and pricing of business.

We generally apply the following underwriting management principles:

Team Approach

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

Actuarial Pricing

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

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

Act as Lead Underwriter

Typically, one or two reinsurers will act as the lead or co-lead parties in developing and negotiating treaty pricing, terms and conditions of reinsurance contracts. We act as the lead underwriter for a significant portion of the premium that we underwrite. We believe that lead underwriting is a critically important factor in achieving long-term success, as lead underwriters have greater control of overall economics of their programs. In addition, we believe that reinsurers that lead contracts are generally solicited for a broader range of business and have greater access to attractive risks. However, for most of our excess of loss business, including our property catastrophe portfolio, which is relatively small by market premium standards, we generally act as a following reinsurer on syndicated terms and conditions.

Alignment of Interests

We seek to ensure that the contracts we underwrite align our interests with our clients' interest. Specifically, we may seek to:

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

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

Detailed Underwriting Diligence

We employ selective underwriting criteria in the contracts we choose to underwrite and for the contracts we lead or on which we have a material share, we spend a significant amount of time with our clients and brokers to evaluate the risks and appropriately structure the contracts. In the majority of our transactions, as a leading or following reinsurer, we obtain significant amounts of information from our clients to conduct a thorough analysis. As part of our pricing and underwriting process, we assess among other factors:

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

Retrocessional Coverage

Retrocessional coverage consists of reinsurance purchased by a reinsurer from another reinsurer. While our reinsurance portfolio is focused on reinsurance of insurance companies, we also selectively write retrocessional coverage, the majority of which is in our property catastrophe portfolio. We have also historically purchased limited amounts of retrocessional protection to cover a portion of the risks that we reinsure on behalf of our clients. We purchased a small amount of retrocessional coverage in 2018 on specific accounts, and we may continue to do so in the future. From time to time, we consider purchases of retrocessional coverage for one or more of the following reasons: to specifically reduce our property catastrophe exposure in certain reinsurance contracts that we write, to reduce our net liability on individual risks, to obtain additional underwriting capacity and to balance our underwriting portfolio. Additionally, retrocession can be used as a mechanism to share the risks and rewards of business written and therefore can be used as a tool to align our interests with those of our counterparties.

Claims Management

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

Reserves

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

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

See Note 9 to our consolidated financial statements included elsewhere in this Annual Report for additional information and details on our loss reserve development.

Collateral Arrangements and Letter of Credit Facilities

Neither Third Point Re BDA nor Third Point Re USA is licensed or admitted as an insurer in any jurisdiction other than Bermuda. Many jurisdictions, such as the United States, do not permit clients to take credit for reinsurance on their statutory financial statements if such reinsurance is obtained from unlicensed or non-admitted insurers without appropriate collateral or, in some states, unless they have investment grade financial strength ratings from two recognized rating agencies. Furthermore, certain clients may require that we post collateral in order to meet their counterparty security requirements. As a result, we anticipate that all of our U.S. clients and a portion of our non-U.S. clients will require us to provide collateral for the contracts we bind with them. We expect this collateral to take the form of funds withheld, trust arrangements or letters of credit. As of December 31, 2018, we have issued letters of credit totaling $349.2 million in favor of clients. The failure to maintain, replace or increase our letter of credit facilities on commercially acceptable terms may significantly and negatively affect our ability to implement our business strategy. See “Risk Factors - Risks Relating to Our Business - Our failure to obtain sufficient letter of credit facilities or to increase our letter of credit capacity on commercially acceptable terms as we grow could significantly and negatively affect our ability to implement our business strategy.”

In addition, we have $644.8 million of restricted cash and investments held in trust accounts to secure obligations under certain reinsurance contracts.

See Note 13 to our consolidated financial statements included elsewhere in this Annual Report for additional information and details on our collateral arrangements and letter of credit facilities.

Competition

The reinsurance industry is highly competitive. We compete with major reinsurers, most of which are well established, have a significant operating history, stronger financial strength ratings, and have developed long-standing client relationships often with a larger breadth of coverage across the property and casualty market in substantially all lines of business. We also compete with smaller companies and other niche reinsurers and a growing number of insurance linked security fund managers. However, we believe that our unique approach to underwriting and extensive relationships allow us to be successful in underwriting transactions against our competitors.

Risk Management

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

Ratings

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

Change in Investment Account Structure

On July 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”) of TP Fund with TP GP and others, effective August 31, 2018. Pursuant to the investment management agreement between Third Point LLC and TP Fund, dated July 31, 2018 as amended and restated on February 28, 2019 (the “TP Fund IMA”), Third Point LLC is the investment manager for TP Fund. In addition, on July 31, 2018, Third Point Re BDA and Third Point Re USA, together the “TPRE Limited

Partners" and TP Fund executed a Subscription Agreement pursuant to which the TPRE Limited Partners transferred certain net investment assets and related liabilities (collectively referred to as the "LP Transaction") from their separate accounts to TP Fund, and TP Fund issued limited partner interests to the TPRE Limited Partners proportionate to and based on the net asset value transferred by each such entity on the applicable transfer date. Certain collateral assets consisting of debt securities and restricted cash were not transferred to TP Fund but are also managed by Third Point LLC under a separate investment management agreement, as discussed below under "Collateral Assets IMA". Substantially all of the net investment assets were transferred as of September 4, 2018. The Amended and Restated Joint Venture and Investment Management Agreement dated June 22, 2016 between Third Point Re, Third Point Re BDA, Third Point LLC and TP GP and the Amended and Restated Joint Venture and Investment Management Agreement dated June 22, 2016 between Third Point Re USA, Third Point Re (USA) Holdings Inc., Third Point LLC and TP GP (the "JV Agreements") will be terminated on the date that all net investment assets have been transferred to TP Fund under the Subscription Agreement. 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.

On August 30, 2018, Third Point Re BDA and Third Point Re USA entered into a Participation Agreement ("Participation Agreement") with TP Fund pursuant to which Third Point Re BDA and Third Point Re USA granted to TP Fund all of the rights, benefits, liabilities, duties and obligations of all net investment assets that had not yet been transferred to TP Fund pursuant to the Subscription Agreement as of the effective date. For the net investment assets that were not transferred on September 4, 2018, the TPRE Limited Partners received limited partnership interests in TP Fund in exchange for transferring the rights, benefits, liabilities, duties and obligations for those net investment assets to TP Fund under the Participation Agreement.

As discussed below, on February 28, 2019, we entered into the Second Amended and Restated Exempted Limited Partnership Agreement of TP Fund (the "Amended LPA"), which amended and restated the 2018 LPA (as amended and restated by the Amended LPA, the "LPA"), with effect from January 1, 2019. The Amended LPA updated the terms of the 2018 LPA to reflect (i) a lower management fee, (ii) the right to withdraw specified amounts from TP Fund and immediately invest such amounts in certain other investment vehicles formed by Third Point LLC and (iii) adjustments to the loss carryforward terms. All other material terms of the Amended LPA remain consistent with the 2018 LPA.

JV Agreements

As discussed above, the JV Agreements will be terminated on the date that all net investment assets have been transferred to TP Fund under the Subscription Agreement. Substantially all of the net investment assets have been transferred. For information regarding our previous investment guidelines related to the JV agreements, see the summary provided under "Joint Ventures and Investment Management Agreements" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 1, 2018.

Limited Partnership Agreement

Term

The LPA has a term ending on December 31, 2021, subject to automatic renewal for additional successive three-year terms unless a party notifies the other parties in writing on or before the June 22nd prior to the end of a term that it wishes to terminate such LPA at the end of such term.

Term and Termination Rights

The LPA shall continue until the first of the following events to occur: (1) at any time, upon the written consent of the TPRE Limited Partners and TP GP, (2) within sixty days of the dissolution, entry of an order for relief or filing of a bankruptcy petition withdrawal of TP GP, unless within such days a successor general parent is elected by a majority

interest of the limited partners, or (3) subject to the foregoing, any other event causing the mandatory winding up and dissolution of the partnership under the laws of the Cayman Islands.

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

Withdrawal Rights

Under the LPA, we may withdraw our capital accounts in TP Fund in full on December 31, 2021 (the "Withdrawal Date"), and each successive three-year anniversary of such date.

We may withdraw our capital accounts in TP Fund under the LPA prior to the Withdrawal Date at any time following the occurrence of a "Cause Event", which is defined as:

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

Under the LPA, the TPRE Limited Partners will 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.

In addition, we may withdraw as a participant under the LPA prior to the Withdrawal Date if the net investment performance of Third Point LLC has (a) (i) incurred a loss in two successive calendar years and (ii) underperformed the S&P 500 Index by at least 14 percentage points for such two successive calendar years, taken as a whole, or (b) (i) incurred a cumulative loss of 14% or more during any 24-month period and (ii) underperformed the S&P 500 Index by at least 21 percentage points for such 24-month period. We may not withdraw or terminate the LPA on the basis of performance other than as provided above.

In addition, pursuant to the Amended LPA, TP GP shall notify us if Third Point LLC or its affiliates (either alone or together with a third party) form certain investment vehicles that pursue an investment strategy primarily comprised of debt or other credit-related investments (the "Permitted Funds"). The Amended LPA permits us to withdraw up to $250.0 million in 2019 and a separate $250.0 million during the period from January 1, 2020 through December 31, 2021 for the purpose of immediately investing such amounts in Permitted Funds.

Performance Allocation

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 LPA effective August 31, 2018, the performance fee allocation is equal to 20% of the net investment income allocated to each limited partner's capital account in TP Fund.

At the end of each fiscal year, the performance allocation will be reallocated to the capital account of TP GP from the capital account of each limited partner, provided that a performance allocation will not be made with respect to such capital account until such capital account has recouped the amount of any unrecouped net capital loss in its loss recovery account (as described below). If a limited partner withdraws all or a portion of its capital other than at the end of a fiscal year, the performance allocation accrued and attributable to the portion withdrawn will be debited against such limited partner's account and credited to TP GP's capital account at the time of withdrawal.

Pursuant to both the JV Agreements and the 2018 LPA, Third Point LLC is required to maintain a loss recovery account in respect of each Limited Partner. Thereafter, for any fiscal year, the loss recovery account balance shall be the sum of all prior year net loss amounts allocated to the limited partner and not subsequently offset by prior year net profit amounts allocated to such limited partner, provided that the loss recovery account balance shall be reduced proportionately to reflect any withdrawals made by such Limited Partner. TP GP may waive or reduce the performance allocation, in its sole discretion. Third Point LLC and TP GP may elect, at the beginning of each fiscal year, to restructure the performance allocation as a performance fee to Third Point LLC with the same terms as the performance allocation.

The Amended LPA preserves the loss carryforward attributable to our investment in TP Fund when contributions to TP Fund are made within nine months of certain types of withdrawals from TP Fund.

Management Fee

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%, (2.0% up to December 22, 2016), of net investments managed by Third Point LLC. As a result of the 2018 LPA effective August 31, 2018, management fees were 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"). The Amended LPA revised the management fee from 1.5% per annum to 1.25% per annum effective from January 1, 2019. Third Point LLC also serves as the investment manager for the Offshore Master Fund.

Most Favored Nation

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

Investment Guidelines

In accordance with the investment guidelines under the LPA, the underlying investment portfolio of TP Fund is managed on a basis that is substantially equivalent to Third Point Offshore Master Fund L.P., which is managed by Third Point LLC, but with increased exposures through the use of additional financial leverage. The leverage of TP Fund will be managed based on the terms of the LPA to generally target a "leverage factor" of (a) one and one half times (1.5x) for investments in liquid securities and (b) one time (1x) for investments in illiquid securities and ABS securities, in each case, as determined by TP GP in its sole discretion.

Under the LPA, TP GP is required to cause Third Point LLC to adhere to the following investment guidelines:

- Composition of Investments: at least 60% of the investment portfolio will be held in debt or equity securities (including swaps) of publicly traded companies (or their subsidiaries) and governments of the Organization of Economic Co-operation and Development ("OECD") high income countries, asset-backed securities, cash, cash equivalents and gold and other precious metals.
- Concentration of Investments: other than cash, cash equivalents and U.S. government obligations, TP Fund's total exposure to any one issuer or entity will constitute no more than 15% (multiplied by the exposure multiplier, the exposure multiplier will be computed by dividing the average of the daily investment exposure

leverage of TP Fund by the average of the daily investment exposure leverage of Third Point Offshore Master Fund L.P.) of the investment portfolio's total long exposure.

- Liquidity: the portfolio of TP Fund will be invested in such fashion that the Company have a reasonable expectation that they can meet any of its liabilities as they become due. We review the liquidity of the portfolio on a periodic basis.
- Net Exposure Limits: the net position (long positions less short positions) may not exceed 2 times net asset value for more than 10 trading days in any 30-trading day period.

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

See Note 11 to our consolidated financial statements included elsewhere in this Annual Report for detailed information on management and performance fees.

Collateral Assets IMA

On July 31, 2018, Third Point Re BDA and Third Point Re USA entered into the Collateral Assets IMA, effective August 31, 2018, pursuant to which Third Point LLC serves as investment manager of certain collateral assets that will not be transferred to TP Fund. The Collateral Assets IMA will continue in effect for so long as either Third Point Re BDA or Third Point Re USA remains a limited partner of TP Fund. The collateral assets are presented in the consolidated balance sheets within debt securities and restricted cash and are considered as part of total net investments managed by Third Point LLC.

The Collateral Assets IMA includes provisions limiting liability of Third Point LLC and its affiliates to specified circumstances and providing for indemnification by Third Point Re BDA and Third Point Re USA for certain losses incurred by Third Point LLC and its affiliates. Third Point Re BDA and Third Point Re USA will be responsible for any and all third party expenses incurred by them or on their behalf that are directly attributable to the management of the collateral assets, other than those borne by Third Point LLC. No asset based or performance-based compensation will be paid to Third Point LLC by Third Point Re BDA or Third Point Re USA under the Collateral Assets IMA. Upon three business days' prior written notice, Third Point Re BDA and Third Point Re USA may withdraw all or a portion of the collateral assets effective as of any calendar month end or on the close of business on each Wednesday during a month.

Investments

Investment Strategy

Third Point LLC has the contractual right to manage substantially all of our investable assets until December 31, 2021, subject to certain extension and termination rights described above, and is required to follow our investment guidelines described above and to act in a manner that is fair and equitable in allocating investment opportunities to us. However, it is not otherwise restricted with respect to the nature or timing of making investments for our accounts. We have the contractual right to withdraw funds from our managed accounts to pay claims and expenses as needed.

Investment Portfolio

The following tables present the total long, short and net exposure of our net investments managed by Third Point LLC as of December 31, 2018 and 2017 by strategy and geography. The tables as of December 31, 2018 include our investments in TP Fund and collateral assets managed by Third Point LLC. The tables as of December 31, 2017 include collateral assets managed by Third Point LLC and our investments in the separate accounts in place prior to the change in the investment account structure described in Note 4 to the consolidated financial statements included in this Form 10-K.

	2018			2017		
	Long	Short	Net	Long	Short	Net
Long/Short Equity						
Consumer	13%	(3)%	10%	18%	(5)%	13%
Energy & Utility	2%	—%	2%	6%	(2)%	4%
Financial	7%	(2)%	5%	15%	(3)%	12%
Healthcare	15%	(1)%	14%	14%	(2)%	12%
Industries & Commodities	12%	(6)%	6%	28%	(4)%	24%
Technology, Media and Telecommunications	2%	(4)%	(2)%	14%	—%	14%
Market Hedges	3%	(6)%	(3)%	3%	(9)%	(6)%
Total Long/Short Equity	54%	(22)%	32%	98%	(25)%	73%
Credit						
Distressed	2%	—%	2%	2%	—%	2%
Performing	2%	—%	2%	2%	(1)%	1%
Government	5%	(2)%	3%	2%	—%	2%
Asset Backed Securities (1)	9%	(2)%	7%	10%	(3)%	7%
Total Credit	18%	(4)%	14%	16%	(4)%	12%
Other						
Risk Arbitrage	2%	(1)%	1%	7%	(2)%	5%
Private (2)	7%	—%	7%	3%	—%	3%
Total Other	9%	(1)%	8%	10%	(2)%	8%
	81%	(27)%	54%	124%	(31)%	93%

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

(2) Prior to the change in investment account structure, private included securities approved for purchase by the Investment and Finance Committee in accordance with the investment guidelines.

	2018			2017		
	Long	Short	Net	Long	Short	Net
Americas	70%	(21)%	49%	93%	(29)%	64%
Europe, Middle East and Africa	11%	(3)%	8%	7%	—%	7%
Asia	—%	(3)%	(3)%	24%	(2)%	22%
	81%	(27)%	54%	124%	(31)%	93%

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 years ended December 31, 2018, 2017 and 2016[(1)] . The net investment return includes our investment accounts, inclusive of collateral assets managed by Third Point LLC, prior to August 31, 2018, the date of the change in the investment account structure described in Note 4 to our consolidated financial statements included elsewhere in this Annual Report, and our investment in TP Fund and collateral assets managed by Third Point LLC from the date of the transition.

	2018			2017			2016		
	Long	Short	Net	Long	Short	Net	Long	Short	Net
Equity	(8.7)%	0.1 %	(8.6)%	21.5%	(4.6)%	16.9%	1.5%	(2.9)%	(1.4)%
Credit	— %	(0.2)%	(0.2)%	0.7 %	(0.6)%	0.1 %	6.4%	(0.4)%	6.0 %
Other	(2.8)%	0.8 %	(2.0)%	1.8 %	(1.1)%	0.7 %	0.5%	(0.9)%	(0.4)%
Net investment return on investments managed by Third Point LLC	(11.5)%	0.7 %	(10.8)%	24.0%	(6.3)%	17.7%	8.4%	(4.2)%	4.2 %
S&P 500 Total Return Index			(4.4)%			21.8%			12.0 %

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

See Note 14 to our consolidated financial statements included elsewhere in this Annual Report for detailed information on net investment income (loss). TP Fund's investment manager, Third Point LLC, manages several funds and may manage other client accounts besides our and TP Fund's accounts, some of which have, or may have, objectives and investment portfolio compositions similar to our and TP Fund's accounts. Because of the similarity or potential similarity of the investment portfolio of TP Fund to other clients of Third Point LLC, and because, as a matter of ordinary course, Third Point LLC provides its clients, including us and TP Fund, and investors in its main hedge funds with results of their respective investment portfolios following the last day of each month, those other clients or investors indirectly may have material nonpublic information regarding the investment portfolio of TP Fund. To address this, and to comply with Regulation FD, we will continue to post on our website under the heading Investment Portfolio Returns located in the Investors section of the website, following the close of trading on the New York Stock Exchange on the last business day of each month, the preliminary monthly investment results of TP Fund for that month, with additional information regarding the monthly investment results of TP Fund to be posted following the close of trading on the New York Stock Exchange on the first business day of the following month.

Investment Regulatory Concerns and Restrictions

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

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

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

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

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

Other Trading Restrictions

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

Regulation

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

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

The Insurance Act of 1978

The Insurance Act of 1978, as amended, and related regulations of Bermuda (the "Insurance Act"), which regulates the insurance business of Third Point Re BDA and Third Point Re USA, provides that no person shall carry on any insurance business in or from within Bermuda unless registered as an insurer under the Insurance Act by the Bermuda Monetary Authority ("BMA"). Third Point Re BDA and Third Point Re USA are each registered as Class 4 insurers under the Insurance Act. Class 4 insurers are required to maintain fully paid-up share capital of $1,000,000. Certain significant aspects of the Bermuda insurance regulatory framework are set forth below.

Annual Financial Statements

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

Declaration of Compliance

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

Annual Statutory Financial Return and Annual Capital and Solvency Return

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

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

Quarterly Financial Statements

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

Public Disclosures

Third Point Re BDA and Third Point Re USA, as Class 4, insurers are each required to prepare and file with the BMA, and also publish on their website, a financial condition report. The BMA has discretion to approve modifications and exemptions to the public disclosure rules, on application by the insurer if, among other things, the BMA is satisfied that the disclosure of certain information will result in a competitive disadvantage or compromise confidentiality obligations of the insurer.

Non-insurance Business

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

Minimum Liquidity Ratio

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

Minimum Solvency Margin and Enhanced Capital Requirements

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

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

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

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

Eligible Capital

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

Insurance Code of Conduct

Every Bermuda registered insurer must comply with the Insurance Code of Conduct, which prescribes duties, standards, procedures and sound business principles to ensure sound corporate governance, risk management and internal controls are implemented by the relevant insurer. The BMA will assess an insurer's compliance with the Insurance Code of Conduct in a proportionate manner relative to the nature, scale and complexity of its business. Failure to comply with the requirements under the Insurance Code of Conduct will be a factor taken into account by the BMA in determining whether an insurer is conducting its business in a sound and prudent manner as prescribed by the Insurance Act. Such failure to comply with the requirements of the Insurance Code of Conduct could result in the BMA exercising its powers of intervention and investigation and will be a factor in calculating the operational risk charge applicable in accordance with the insurer's BSCR model or approved internal model.

Restrictions on Dividends and Distributions

A Class 4 insurer is prohibited from declaring or paying a dividend if it is in breach of its MSM, ECR or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. Where an insurer fails to meet its MSM or minimum liquidity ratio on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA.

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

Reduction of Capital

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

Fit and Proper Controllers

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

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

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

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

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

Notification by Registered Person of Change of Controllers and Officers

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

Notification of Material Changes

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

Supervision, Investigation, Intervention and Disclosure

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

Disclosure of Information

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

Certain Other Bermuda Law Considerations

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

United States Insurance Regulation

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

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

Information Technology

We have a disaster recovery plan with respect to our information technology infrastructure that includes arrangements with an offshore data center. Our off-island location for data systems back-up and recovery is located in Halifax, Canada, providing a remote site that we believe is unlikely to be subject to the same disaster events that might impair our operations in Bermuda. The disaster recovery environment is configured to provide near real-time backup for key systems to minimize the amount of time needed to restore data following a disaster scenario and support the necessary business capabilities of our Bermuda and U.S. operations.

Employees

As of December 31, 2018, we had 31 employees, 20 of whom were based in Bermuda, 10 of whom were based in the United States and 1 of whom was based in the United Kingdom. We believe that our employee relations are good. None of our employees are subject to collective bargaining agreements, and we are not aware of any current efforts to implement such agreements.

Available Information

Third Point Re files annual, quarterly and current reports and other information with the SEC. The SEC maintains an Internet website (www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including us. You may also access, free of charge, our reports filed with the SEC (for example, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K and any amendments to those forms) through the “Investors” portion of our Internet website (www.thirdpointre.bm). Reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC. We also make available, free of charge from our website, our Code of Business Conduct and Ethics, Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, Governance and Nominating Committee Charter, and Board of Directors Communications Policy. Such information is available to print for any shareholder who sends a request to Third Point Reinsurance Ltd., Attn: Office of the Corporate Secretary, 3 Waterloo Lane, Pembroke, Bermuda, HM08. Our website is included in this Annual Report as an inactive textual reference only. The information found on our website is not part of this or any other report filed with or furnished to the SEC.

Third Point Re has fully and unconditionally guaranteed the debt securities issued by TPRUSA in February 2015; as a result no separate filings are made by TPRUSA with the SEC. See Note 27 to our consolidated financial statements included elsewhere in this Annual Report for additional information regarding TPRUSA.

Item 1A. Risk Factors

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

Risks Related to Our Business

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

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

- the performance of TP Fund’s investment portfolio;
- reinsurance contract pricing;
- our assessment of the quality of available reinsurance opportunities;
- the volume and mix of reinsurance products we underwrite;
- loss experience on our reinsurance liabilities;
- low frequency and high severity loss events; and
- our ability to assess and integrate our risk management strategy properly.

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

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

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

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

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

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

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

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

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

We make use of quantitative models to evaluate potential reinsurance transactions, to reserve for transactions once they are bound and to assess our risk related to our reinsurance and investment portfolios. These models have been developed internally and in some cases they make use of third party software. For example, we license catastrophe modeling and aggregation software to both assist with monitoring and managing catastrophe aggregations at pricing selection. The construction of these models and the selection of assumptions requires significant actuarial judgment. Furthermore, these models typically rely on either cedent or industry data, both of which may be incomplete or may be subject to errors by employees, failure to document transactions properly, failure to comply with regulatory requirements or information technology failures. Given the inherent uncertainty in these models as well as the underlying assumptions and data, the results of our models may not accurately address the emergence of a variety of matters which might impact certain of our coverages. Accordingly, these models may understate the exposures we are assuming and our financial

results may be adversely affected, perhaps significantly. Any such impact could also be felt across our reinsurance contract portfolio, since similar models and judgment are used in analyzing the majority of our transactions.

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

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

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

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

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

Our property catastrophe reinsurance operations will make us vulnerable to losses from catastrophes and may cause our results of operations to vary significantly from period to period.

Our property and catastrophe reinsurance operations expose us to claims arising out of unpredictable catastrophic events, such as hurricanes, hailstorms, tornados, windstorms, earthquakes, floods, fires, explosions, and other natural or man-made disasters. The incidence and severity of catastrophes are inherently unpredictable but the loss experience of property catastrophe reinsurers has been generally characterized as low frequency and high severity. Claims from catastrophic events could reduce our earnings and cause substantial volatility in our results of operations for any fiscal quarter or year and adversely affect our financial condition. Corresponding reductions in our surplus levels could impact our ability to write new reinsurance policies.

Catastrophic losses are a function of the insured exposure in the affected area and the severity of the event. Because accounting standards do not permit reinsurers to reserve for catastrophic events until they occur, claims from catastrophic events could cause substantial volatility in our financial results for any fiscal quarter or year and could significantly and negatively affect our financial condition and results of operations.

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

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

We seek to manage reinsurance volatility by focusing on lines of business that have historically demonstrated more stable return characteristics, such as property quota share, auto, and workers' compensation. These lines of business are often characterized as having exposure to higher frequency and lower severity claims activity, although this has not always been the case. We seek to further manage the volatility of our reinsurance results by writing contracts on a quota share basis and through the use of contractual terms and conditions, such as loss ratio caps, within our reinsurance

contracts. However, there can be no assurance that these terms and conditions will be effective in mitigating our exposure. The failure or ineffectiveness of any of our terms and conditions could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For the year ended December 31, 2018, the decrease in shareholders' equity attributable to common shareholder's of Third Point Re and Third Point Re BDA both exceeded 20%. As a result, termination or collateral rights for some of Third Point Re BDA's and Third Point Re USA's reinsurance contracts can be exercised. To date, we have not been advised by any client of their intention to exercise these rights; however, they may do so in the future. We cannot predict whether or how many, if any, of our clients will actually exercise such rights or the extent to which such rights would have a significant and negative effect on our financial condition, results of operations or future prospects but they could have a significant adverse effect on our operations and our ability to post sufficient collateral for reinsurance obligations.

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

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

We do not currently maintain key man life insurance with respect to any of our senior management. If any member of senior management dies or becomes incapacitated, or leaves the company to pursue employment opportunities

elsewhere, we would be solely responsible for locating an adequate replacement for such senior management and for bearing any related cost. To the extent that we are unable to locate an adequate replacement or are unable to do so within a reasonable period of time, our business may be significantly and negatively affected.

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

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

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

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

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

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

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

In March 2015, Third Point Re and Third Point Re USA entered into a Net Worth Maintenance Agreement, pursuant to which Third Point Re must have committed funds sufficient to, and must continue to, maintain a minimum level of capital at Third Point Re USA of $250.0 million (the “Net Worth Maintenance Agreement”). Failure to maintain the minimum level of capital required by the Net Worth Maintenance Agreement could limit or prevent Third Point Re USA from paying dividends to us.

Third Point Re is indirectly subject to Bermuda regulatory constraints placed on Third Point Re BDA and Third Point Re USA. This affects our ability to pay dividends on the shares and make other payments. Under the Insurance Act, Third Point Re BDA and Third Point Re USA, as Class 4 insurers, are prohibited from declaring or paying a dividend if the relevant insurer is in breach of its minimum solvency margin (“MSM”), enhanced capital ratio (“ECR”) or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. Where either Third Point Re BDA or Third Point USA, as Class 4 insurers, fails to meet its MSM or minimum liquidity ratio on the last day of any financial year, they are prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

•respond to competitive pressures.

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

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

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

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

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

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

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

We market our reinsurance worldwide primarily through reinsurance brokers. Business placed by our reinsurance brokers that each individually contributed more than 10% of total gross premiums written from inception to December 31, 2018 were: Aon Benfield, JLT Re, Willis Re and Guy Carpenter & Company, LLC, which accounted for 29.4%, 19.0%, 12.6% and 11.8%, respectively. Affiliates of several brokers have also co-sponsored the formation of Bermuda reinsurance companies that may compete with us, and these brokers may favor their own reinsurers over other companies. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.

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

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

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

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

Through our strategic transactions, we may also assume unknown or undisclosed business, operational, tax, regulatory and other liabilities, fail to properly assess known contingent liabilities, or assume businesses with internal control deficiencies. Risk-mitigating provisions that we put in place in the course of negotiating and executing these transactions, such as due diligence efforts and indemnification provisions, may not be sufficient to fully address these liabilities and contingencies.

In addition, as the pace of change in our industry continues to increase, we regularly evaluate our business plans and strategies and may from time to time modify our business and strategic plan,including through strategic transactions or expansion into new lines of reinsurance business. Any such transaction or expansion could be significant and could materially and adversely affect us and our financial condition. Changing plans and strategies requires significant management time and effort, and may divert management's attention from our core existing operations and competencies. Moreover, modifications we undertake to our operations may not be immediately reflected in our financial statements and, when reflected, may not reflect the achievement of our targeted long-term results and goals. Our failure to carry out our business plans may have an adverse effect on our long-term results of operations and financial condition.

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

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

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

It is possible that insurance policies we have in place with third parties would not entirely protect us in the event that we experienced a breach, interruption or widespread failure of our information technology systems. Furthermore, we

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have not secured insurance coverage designed to specifically protect us from an economic loss resulting from such events.

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

Risks Relating to Our Investment Strategy

Under our new investment account structure, we do not have control over TP Fund.

Under the LPA, TP GP has exclusive management and control of the business of TP Fund, including the authority to undertake on behalf of TP Fund all actions that, in its sole judgment, are necessary or desirable to carry out its duties and responsibilities. These broad rights of TP GP include the power to delegate its authorities under the LPA. Pursuant to the TP Fund IMA, TP GP delegates to Third Point LLC the authority to direct the investments of TP Fund and other day-to-day business of TP Fund. In addition, TP GP may resign or, subject to its minimum investment requirement, withdraw from TP Fund and may admit new limited partners without our consent, which may cause TP Fund to be deemed an "investment company" under the Investment Company Act of 1940. The TPRE Limited Partners have no right to remove TP GP as general partner of TP Fund and do not have any right to participate in the management and conduct of TP Fund.

TP Fund is not, and is not expected to be, registered as an "investment company" under the Investment Company Act of 1940 or any comparable regulatory requirements. Therefore, investors in TP Fund, including the TPRE Limited Partners, do not and will not have the benefit of the protections afforded by such registration and regulation.

We do not control the allocation and performance of TP Fund's investment portfolio and its performance depends on the ability of its investment manager, Third Point LLC, to select and manage appropriate investments.

Pursuant to the LPA, TP GP is required to apply certain investment guidelines to TP Fund's investment portfolio. In addition, the TP Fund IMA contractually obligates Third Point LLC, as TP Fund's investment manager, to comply with the investment guidelines. However, we cannot assure shareholders as to exactly how assets will be allocated to different investment opportunities, including long and short positions and derivatives trading, which could increase the level of risk in our investment in TP Fund. The performance of our investment in TP Fund depends to a great extent on the ability of Third Point LLC, as TP Fund's investment manager, to select and manage appropriate investments for TP Fund's investment portfolio. We cannot assure you that Third Point LLC will be successful in meeting TP Fund's investment objectives.

The failure of Third Point LLC to perform adequately could significantly and negatively affect the results of our investment in TP Fund and consequently could significantly and negatively affect our business, results of operations and financial condition.

In addition, under the LPA, TP GP has the authority to dismiss from employment any and all agents, managers, consultants, advisors and other persons, including Third Point LLC. If TP GP chooses to dismiss Third Point LLC from employment as TP Fund's investment manager, there is no assurance that TP GP will find or hire a suitable replacement. If TP GP were to hire a suitable replacement, there is no guarantee that any such replacement would provide TP Fund with comparable or better investment results than those that Third Point LLC may provide to TP Fund or than those that Third Point LLC has provided in the past to us.

TP Fund may be expected to indemnify Third Point LLC under certain circumstances in accordance with the TP Fund IMA. As a result, the capital accounts of TPRE Limited Partners in TP Fund could be reduced, which could have a material and adverse impact on our financial conditions and results of operations.

We have a limited ability to withdraw our capital accounts from TP Fund

The LPA limits our ability to withdraw our capital accounts from TP Fund. The LPA provides that we may withdraw our capital accounts in TP Fund in full on the Withdrawal Date or any successive three-year anniversary of such date.

It also allows us to withdraw upon the occurrence of certain specified events as described in “Item 1. Withdrawal Rights”.

Additionally, the LPA prohibits us from engaging an investment manager other than Third Point LLC without the written consent of Third Point LLC. As a result, we have limited flexibility to change our investment strategy or manage our investments outside of TP Fund or with a different investment manger, which could have a negative impact on our returns.

TP GP, Third Point LLC and their respective affiliates may have potential conflicts of interest that could adversely affect us

Neither Third Point LLC nor its principals, including Daniel S. Loeb, who is one of our shareholders, are obligated to devote any specific amount of time, effort or investment opportunities to our or TP Fund’s affairs. Affiliates of Third Point LLC manage, and expect to continue to manage, other client accounts, some of which have objectives similar to ours and TP Fund’s, including collective investment vehicles managed by Third Point LLC’s affiliates and in which Third Point LLC or its affiliates may have an equity interest. Third Point LLC’s interest and the interests of its affiliates, may at times conflict, possibly to Third Point LLC’s detriment, which may potentially adversely affect our and TP Fund’s investment opportunities and returns.

Josh Targoff, who serves as Chairman of our Board, also serves as a partner, Chief Operating Officer and General Counsel to Third Point LLC. This service to both companies may create, or may create the appearance of, conflicts of interest.

TP GP, Third Point LLC and their respective affiliates may engage in other business ventures and investment opportunities that may not be allocated equitably among us and such other business ventures.

Under the LPA, TP GP and its affiliates have the ability to engage in or possess interests in other business activities, including investing or disposing of securities in which TP Fund may from time to time invest. TP GP or Third Point LLC may organize and manage one or more entities or accounts that may parallel the investment activities of TP Fund. TP GP or Third Point LLC, as the case may be, may allocate investment opportunities among such entities or accounts, other affiliated funds and TP Fund as it deems to be fair and equitable in its sole discretion. However, we cannot be assured that the allocation of investment opportunities between TP Fund and such other entities, accounts or funds will be equitable.

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

The historical returns of the funds managed by Third Point LLC are not directly linked to returns on our common shares. As TP Fund’s investment manager, Third Point LLC has agreed to manage TP Fund’s investment portfolio on a basis that is substantially equivalent to Third Point Offshore Master Fund L.P., which is managed by Third Point LLC, but with increased exposures through the use of additional financial leverage. However, results for TP Fund’s investment portfolio could differ from results of the funds managed by Third Point LLC as a result of restrictions imposed by TP Fund’s investment guidelines, and other factors. In addition, even if TP Fund’s investment portfolio generates investment income in a given period, our overall performance could be adversely affected by losses generated by our reinsurance operations or public market dynamics. Poor performance of TP Fund’s investment portfolio would cause a decline in our revenue and would therefore have a negative effect on our financial performance.

Moreover, with respect to the historical performance of funds or accounts managed by Third Point LLC, including our investment portfolio, prior to the recent change in investment account structure:

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

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

We derive a significant portion of our income from our investment in TP Fund. As a result, our operating results depend in part on the performance of TP Fund’s investment portfolio. TP Fund’s investments are not structured in relation to our anticipated reinsurance liabilities, which could force us to liquidate investments at a significant loss or at prices that are not optimal, which could significantly and adversely affect our financial results.

The risks associated with Third Point LLC’s investment strategy may be substantially greater than the risks associated with traditional fixed-income investment strategies employed by many reinsurers with whom we compete. Third Point LLC makes investments globally, in both developed and emerging markets, in all sectors, and in equity, credit, commodity, currency, option and other instruments. Third Point LLC is opportunistic and often seeks a catalyst, either intrinsic or extrinsic, that will unlock value or alter the lens through which the greater market values a particular investment. Making long equity investments in an up or rising market may increase the risk of not generating profits on these investments and we may incur losses if the market declines. Similarly, making short equity investments in a down or falling market may increase the risk of not generating profits on these investments and we may incur losses if the market rises. Short sales involve unlimited loss potential since the market price of securities sold short may continuously increase. If the market price of the subject security increases considerably, Third Point LLC might have to cover short sales at suboptimal prices. As of December 31, 2018, short exposure in our consolidated investment portfolio was $921.8 million consisting of 175 debt, equity and index positions, including $436.7 million over 82 positions in the equity portfolio.

The termination by Third Point LLC of the TP Fund IMA or the Collateral Asset IMA could materially adversely affect our investment results.

TP Fund depends upon Third Point LLC, its investment manager, to implement its investment strategy. The TP Fund IMA may be terminated by Third Point LLC or TP GP party at any time upon 90 days’ notice. Further, we also depend on Third Point LLC as the investment manager of the Collateral Assets to implement our investment strategy. The Collateral Asset IMA shall continue in effect as long as either of the TPRE Limited Partners remains a limited partner of TP Fund. If either the TP Fund IMA or the Collateral Asset IMA is terminated, there is no assurance that TP Fund or we could find a suitable replacement. If TP Fund or we were to find a replacement, there is no guarantee that any such replacement would provide comparable or better investment results.

TP Fund’s investment portfolio may contain significant positions, which could result in large losses.

TP Fund’s investment portfolio could be subject to significant losses if it holds a relatively large position in a single issuer, industry, market or a particular type of investment that declines in value, and the losses could increase even further if the investments cannot be liquidated without adverse market reaction or are otherwise adversely affected by changes in market conditions or circumstances. As of December 31, 2018 , the net exposure of our net investments managed by Third Point LLC, which includes TP Fund and the Collateral Assets Account, was 54% and the largest ten long and short positions comprised an aggregate of 38% and 10%, respectively, of our consolidated investment portfolio. As of December 31, 2017, prior to the change in the Company’s investment account structure, the net exposure of our consolidated portfolio was 93% and the largest ten long and short positions comprised an aggregate of 54% and 15%, respectively, of our consolidated investment portfolio. Since our investment portfolio may not be widely diversified at times, it may be subject to more rapid changes in value than would be the case if its investment portfolio were required to maintain a wide diversification among companies, securities and types of securities.

If Third Point LLC’s risk management systems are ineffective, TP Fund may be exposed to material unanticipated losses.

Third Point LLC continually refines its risk management techniques, strategies and assessment methods. However, its risk management techniques and strategies do not fully mitigate the risk exposure of its funds and managed accounts, including TP Fund’s investment portfolio, in all economic or market environments, or against all types of risk, including risks that they might fail to identify or anticipate. Some of Third Point LLC’s strategies for managing risk are based upon its use of historical market behavior statistics. Any failures in Third Point LLC’s risk management techniques and strategies to accurately quantify such risk exposure could limit the risk-adjusted returns of TP Fund’s investment

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portfolio. In addition, any risk management failures could cause losses in the portfolios and accounts managed by Third Point LLC, including TP Fund, to be significantly greater than the historical measures predict. Third Point LLC's approach to managing those risks could prove insufficient, exposing TP Fund to material unanticipated losses.

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

TP Fund's investment guidelines provide Third Point LLC with the ability to trade on margin and use other forms of financial leverage. Fluctuations in the market value of TP Fund's investment portfolio could have a disproportionately large effect in relation to our capital. A common metric used to determine financial leverage for accounts such as TP Fund's investment portfolio is the "gross exposure" of its managed accounts. The "gross exposure" is shown as a percentage of the Net Asset Value ("NAV") of the account, and represents the market exposure in the account (long and short) versus the NAV. In other words, if the NAV of an account is $100, and the account holds securities "long" with an aggregate market exposure of $100 (100% long), and has sold short securities with an aggregate market exposure of $25 (25% short), then the gross exposure would be 125% (i.e., $125 of investments against $100 of NAV). As of December 31, 2018, the gross exposure of TP Fund's consolidated investment portfolio was 108%. Any event that may adversely affect the value of positions TP Fund holds could significantly and negatively affect the net asset value of TP Fund's investment portfolio and thus our results of operations.

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

Third Point LLC may from time to time place its or its affiliates' representatives on creditors' committees or boards of certain companies in which TP Fund's portfolio is invested. While such representation may enable Third Point LLC to enhance the sale value of our and TP Fund's investments, it may also place trading restrictions on such investments. As of the date hereof, representatives of Third Point LLC sat on the board of directors of Baxter International Inc., Hellenic Bank PLC and Sotheby's, whose securities are publicly traded and included in TP Fund's investment portfolio.

Certain of TP Fund's investments may have limited liquidity and lack valuation data, which could create a conflict of interest.

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

U.S. and global economic downturns could harm the performance of TP Fund's investment portfolio, and as a result our liquidity and financial condition and our share price.

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

If Third Point LLC, as TP Fund's investment manager, fails to react appropriately to difficult market, economic and geopolitical conditions, TP Fund and we, as result of our investment in TP Fund, could incur material losses.
The market price of our common shares may be volatile and the risk of loss may be greater when compared with other reinsurance companies.
Third Point LLC's use of hedging and derivative transactions in executing trades for TP Fund's account may not be successful, which could materially adversely affect TP Fund's and our investment results.
In managing TP Fund's investment portfolio, Third Point LLC may use various financial instruments both for investment purposes and for risk management purposes in order to protect against possible changes in the market value of TP Fund's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates, protect unrealized gains in the value of its investment portfolio, facilitate the sale of any such investments, enhance or preserve returns, spreads or gains on any investment in TP Fund's investment portfolio, hedge the interest rate or currency exchange rate on certain liabilities or assets, protect against any increase in the price of any securities Third Point LLC anticipates purchasing for TP Fund's account at a later date or for any other reason that Third Point LLC, as TP Fund's investment manager, deems appropriate. The success of such hedging strategy will be subject to Third Point LLC's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of such hedging strategy will also be subject to Third Point LLC's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While Third Point LLC may enter into hedging transactions for TP Fund's account to seek to reduce risk, such transactions may result in a poorer overall performance for TP Fund's investment portfolio than if it had not engaged in any such hedging transactions. For a variety of reasons, Third Point LLC may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent Third Point LLC from achieving the intended hedge or expose TP Fund's investment portfolio to risk of loss.
TP Fund's investment portfolio may from time to time include investments in mortgage-backed securities and other asset-backed securities, whose investment characteristics differ from corporate debt securities.
TP Fund's investment portfolio may from time to time be invested in mortgage-backed securities and other asset-backed securities, including securitization of marketplace loans, whose investment characteristics differ from corporate debt securities. As of December 31, 2018, the fair value of asset-backed securities in TP Fund's investment portfolio was $206.7 million. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying mortgage loans or other assets generally may be prepaid at any time. Mortgage-backed securities and asset-backed securities may also be subject to call risk and extension risk. For example, because homeowners have the option to prepay their mortgages, the duration of a security backed by home mortgages can either shorten or lengthen.
In general, if interest rates on new mortgage loans fall sufficiently below the interest rates on existing outstanding mortgage loans, the rate of prepayment would be expected to increase. Conversely, if mortgage loan interest rates rise above the interest rates on existing outstanding mortgage loans, the rate of prepayment would be expected to decrease. In either case, a change in the prepayment rate can result in losses to investors. If TP Fund's investment portfolio includes securities that are subordinated to other interests in the same mortgage pool, we may only receive payments after the pool's obligations to other investors have been satisfied. In addition, TP Fund's investment portfolio may, from time to time, be invested in structures commonly known as "Re-REMICS," in which case a trust is further split between a senior tranche and a junior tranche. Third Point LLC usually buys the junior tranche for its funds and the accounts it manages in such circumstances. An unexpectedly high rate of default on mortgages held by a mortgage pool may limit substantially the pool's ability to make payments to holders of such securities, reducing the value of those securities or rendering them worthless. The risk of such defaults is generally higher in the case of mortgage pools that include "sub-prime" mortgages. Changes in laws and other regulatory developments relating to mortgage loans may impact the investments of TP Fund's portfolio in mortgage-backed securities in the future.

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

Under TP Fund’s investment guidelines, Third Point LLC may invest in securities of issuers organized or based outside the United States that may involve heightened risks in comparison to the risks of investing in domestic securities, including unfavorable changes in currency rates and exchange control regulations, reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets, higher brokerage commissions, transfer taxes and custody fees, local economic or political instability and greater market risk in general. In particular, investing in securities of issuers located in emerging market countries involves additional risks, such as exposure to economic structures that are generally less diverse and mature than, and to political systems that can be expected to have less stability than, those of developed countries. Other characteristics of emerging market countries that may affect investment in their markets include certain national policies that may restrict investment by foreigners in issuers or industries deemed sensitive to relevant national interests and the absence of developed legal structures governing private and foreign investments and private property. The typically small size of the markets for securities of issuers located in emerging markets and the possibility of a low or nonexistent volume of trading in those securities may also result in a lack of liquidity and in price volatility of those securities. In addition, dividend and interest payments from and capital gains in respect of certain foreign securities may be subject to foreign taxes that may or may not be reclaimable. Finally, many transactions in these markets are executed as a “total return swap” or other derivative transaction with a financial institution counterparty, and as a result TP Fund’s investment portfolio has counterparty credit risk with respect to such counterparty.

Third Point LLC’s role as an engaged investor in special situation and distressed investments may subject TP Fund to increased risks including the incurrence of additional legal or other expenses.

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

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

Third Point LLC's diminution or loss of service or loss of key employees could materially adversely affect TP Fund's investment results.

TP Fund depends upon Third Point LLC, as its investment manager, to implement its investment strategy. All investment decisions with respect to its investment portfolio are made by Third Point LLC, subject to its investment guidelines, under the general supervision of Daniel S. Loeb. As a result, the success of its investment strategy depends largely upon the abilities of Mr. Loeb. If Mr. Loeb is no longer an employee of Third Point LLC, no assurance can be given that a suitable replacement for Mr. Loeb could be found. As a result, TP Fund's and our investment results could be materially adversely affected.

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

The LPA provides for the following two forms of compensation to be paid to Third Point LLC and TP GP:

- Third Point LLC is entitled to a monthly management fee equal to 1.25% per annum of the net asset value of TP Fund (determined as of the beginning of the month before the accrual of the performance allocation) multiplied by an exposure multiplier; and
- TP GP is entitled to performance compensation equal to 20% of net profits, subject to the management fee and a loss carryforward provision.

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

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

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

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

Third Point LLC routinely engages in short selling for TP Fund's account in managing its investments. Short sale transactions have been subject to increased regulatory scrutiny, including the imposition of restrictions on short selling certain securities and reporting requirements. Third Point LLC's ability to execute a short selling strategy in managing TP Fund's investment portfolio may be materially and adversely impacted by temporary or new permanent rules,

interpretations, prohibitions, and restrictions adopted in response to these adverse market events. Temporary restrictions or prohibitions on short selling activity may be imposed by regulatory authorities with little or no advance notice and may impact prior and future trading activities of TP Fund's investment portfolio. Additionally, the SEC, its non-U.S. counterparts, other governmental authorities or self-regulatory organizations may at any time promulgate permanent rules or interpretations consistent with such temporary restrictions or that impose additional or different permanent or temporary limitations or prohibitions. The SEC might impose different limitations or prohibitions on short selling from those imposed by various non-U.S. regulatory authorities. These different regulations, rules or interpretations might have different effective periods.

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

An increase or decrease in Third Point LLC's assets under management may adversely affect the returns of TP Fund's investment portfolio.

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

Alternatively, if the amount of assets Third Point LLC manages for us, TP Fund and for other accounts it manages were to decrease materially, it could negatively impact Third Point LLC's ability to execute its intended investment strategy, including with respect to obtaining certain larger positions. Such changes could force Third Point LLC to modify its investment decisions for the accounts it manages, which could impact the returns of TP Fund's investment portfolio.

Risks Relating to Insurance and Other Regulations

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

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

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

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

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

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

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

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

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

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

Assuming that we were permitted to register as an investment company, registered investment companies are subject to extensive, restrictive and potentially adverse regulation relating to, among other things, operating methods, management, capital structure, our ability to raise additional debt and equity securities or issue stock options or warrants (which could impact our ability to compensate key employees), financial leverage, dividends, board of director composition and transactions with affiliates. Accordingly, if we were required to register as an investment company we would not be able to operate our business as it is currently conducted, nor would we be permitted to have many of

the relationships that we have with our affiliated companies. Accordingly, we likely would not be permitted to engage Third Point LLC as the investment manager of our Collateral Asset Account or other investment accounts, unless we obtained the board and shareholder approvals required under the Investment Company Act. Our ability to engage in transactions with Third Point LLC or its affiliates would likely also be significantly restricted. If Third Point LLC were not our investment manager, we would potentially be required to liquidate our Collateral Asset Account and we would seek to identify and retain another investment manager with a similar investment philosophy. Pursuant to the LPA, other than in certain specified circumstances, we cannot engage another investment manager without Third Point LLC's consent. If we could not identify or retain such an advisor, we would be required to make substantial modifications to our investment strategy. Any such changes to our investment strategy could significantly and negatively impact our investment results, financial condition and our ability to implement our business strategy.

If at any time it were established that we had been operating as an investment company in violation of the Investment Company Act, there would be a risk, among other material adverse consequences, that we could become subject to monetary penalties or injunctive relief, or both, that we could be unable to enforce contracts with third parties or that third parties could seek to obtain rescission of transactions undertaken during the period in which it was established that we were an unregistered investment company. If, subsequently, we were not permitted or were unable to register as an investment company, it is likely that we would be forced to cease operations.

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

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

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

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

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

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

activities, supervision or liquidation. Further, any changes in existing risk based capital requirements or minimum statutory capital requirements may require us to increase our statutory capital levels, which we might be unable to do.

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

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

On November 26, 2015, the European Commission (the “EC”) adopted a Delegated Act that recognizes Bermuda’s regulatory framework for insurance and reinsurance activities of companies with their head offices in Bermuda, as well as for supervision of insurance and reinsurance groups, with the exception of captives and special purpose insurers, as being fully equivalent to regulatory standards applied to European insurance and reinsurance companies and groups in accordance with the requirements of Solvency II. The Delegated Act was confirmed on March 24, 2016 and was applied retroactively to January 1, 2016, the date Solvency II came into effect. The EC’s decision followed substantial changes to Bermuda’s regulatory framework, including the adoption of the Insurance Amendment (No 2) Act 2015 in July 2015 that entered into force on January 1, 2016, the amendment to the Insurance Code of Conduct with effect from July 2015 and the adoption of revised insurance prudential rules by the BMA that entered into force on January 1, 2016. As many of these changes only came into effect on January 1, 2016, their impact on insurers and reinsurers on companies subject to Bermudian regulation, such as Third Point Re BDA and Third Point Re USA, is unclear.

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

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

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

Risks Relating to Taxation

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

We may be subject to United States federal income taxation.

We are incorporated under the laws of Bermuda and we believe that our activities, as currently conducted (including through our U.S.-based subsidiary, Third Point Re USA) and as contemplated, will not cause us to be treated as engaging in a United States trade or business and will not cause us to be subject to current United States federal income taxation on our net income, except with respect to Third Point Re USA, which is treated as a domestic corporation for U.S. federal income tax purposes. However, because there are no definitive standards provided by the Internal Revenue Code of 1986 as amended or the Code, regulations or court decisions as to the specific activities that constitute being engaged in the conduct of a trade or business within the United States, and as any such determination is essentially factual in nature and must be made annually, we cannot assure you that the United States Internal Revenue Service, or the IRS, will not successfully assert that we are engaged in a trade or business in the United States or, if applicable under the income tax treaty between the U.S. and Bermuda (the “Bermuda Treaty”), engaged in a trade or business in the United States through a permanent establishment, and thus are subject to current United States federal income

taxation. If we were deemed to be engaged in a trade or business in the United States (and, if applicable under the Bermuda Treaty, were deemed to be so engaged through a permanent establishment), Third Point Re BDA generally would become subject to United States federal income tax on its income “effectively connected” (or treated as effectively connected) with the U.S. trade or business, and would become subject to the “branch profits” tax on its earnings and profits that are both effectively connected with the U.S. trade or business and deemed repatriated out of the United States. Any such federal tax liability could materially and adversely affect our operations and financial condition.

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

Passive Foreign Investment Company (“PFIC”). Significant potential adverse U.S. federal income tax consequences generally apply to any United States person who owns shares in a PFIC. In general, either we and/or Third Point Re BDA would be a PFIC for a taxable year if 75% or more of its income constitutes “passive income” or 50% or more of its assets were held to produce “passive income.” Passive income generally includes interest, dividends and other investment income, but does not include income derived in the active conduct of an insurance business by a corporation predominantly engaged in an insurance business. This exception for insurance companies is intended to ensure that a bona fide insurance company’s income is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. However, there is very little authority as to what constitutes the active conduct of an insurance business for purposes of the PFIC rules. The “Tax Cuts and Jobs Act,” P.L. 115-97 (the “TCJA”), modified the insurance exception to apply to a company only if (i) the company would be taxed as an insurance company were it a U.S. corporation and (ii) either (A) loss and loss adjustment expenses and certain reserves constitute more than 25% of the company’s gross assets for the relevant year or (B) a specified exception applies. By adding an additional “bright line” test to the existing PFIC requirements, the TCJA significantly increases the risk that a non-US insurer will be treated as a PFIC, even if it actively conducts insurance operations. There remain significant uncertainties as to the interpretation of the PFIC active insurance exception given the lack of final IRS regulations. Consequently, although we intend to operate, as practicable, in a manner to avoid being classified as a PFIC, there can be no assurance that we will be able to satisfy the requirements of the TCJA.

The IRS has notified taxpayers in IRS Notice 2003-34 that it intends to scrutinize the activities of certain insurance companies located outside of the United States, including reinsurance companies that invest a significant portion of their assets in alternative investment strategies, to determine whether such companies qualify for the active insurance company exception in the PFIC rules. Prior to the TCJA, the IRS proposed regulations did not provide a significant amount of clarity on the requirements for the exception. At this time it is unclear whether final regulations will include a specific methodology for satisfying the exception and how any such methodology would apply to us. The proposed regulations will be effective if issued in final form.

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

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

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

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

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

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

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

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

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New tax laws and regulations and changes in existing tax laws and regulations are continuously being enacted that could result in increased tax expenditures in the future.
The tax laws and interpretations thereof regarding whether a company is engaged in a United States trade or business, is a CFC, has related party insurance income or is a PFIC are subject to change, possibly on a retroactive basis. The regulations regarding the application of the passive foreign investment company rules to an insurance company and regarding related party insurance income are in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming from the IRS. We are not able to predict if, when or in what form such guidance will be provided and whether such guidance will have a retroactive effect.
Our affiliate transactions may be subject to the base erosion and anti-abuse tax ("BEAT").
The TCJA imposes a minimum tax (the "BEAT") on certain payments by United States corporations to a related foreign corporation, which could impose material incremental taxes on reinsurance transactions between Third Point Re USA and Third Point Re BDA, unless Third Point Re USA qualifies for exceptions for taxpayers whose gross receipts or affiliate payments fall under specified thresholds. Although we presently expect that Third Point Re USA would qualify for one of the exceptions, there can be no assurance that the BEAT will not apply to Third Point Re USA.
We may become subject to U.S. withholding and information reporting requirements under the Foreign Account Tax Compliance Act ("FATCA") provisions.
Under the Foreign Account Tax Compliance Act provisions of the Code and related U.S. Treasury guidance ("FATCA"), a withholding tax of 30% will be imposed in certain circumstances on (i) payments of certain U.S. source income (including interest and dividends) ("withholdable payments") and (ii) payments made two or more years after the date on which the final U.S. Treasury regulations that define "foreign passthru payments" are published by certain foreign financial institutions (such as banks, brokers, investment funds or certain holding companies) ("FFIs") that are "attributable" to withholdable payments ("foreign passthru payments"). It is uncertain at present when payments will be treated as "attributable" to withholdable payments.
On December 19, 2013, the Bermuda Government entered into a "Model 2" intergovernmental agreement ("IGA") with the United States to implement FATCA. If we and/or Third Point Re BDA are treated as FFIs for the purposes of FATCA, under the Model 2 IGA, we and/or Third Point Re BDA will be directed to register with the IRS and required to comply with the requirements of FATCA, including due diligence, reporting and withholding. Assuming registration and compliance with the terms of an agreement with the IRS (an "FFI Agreement") pursuant to a Model 2 IGA, an FFI would be treated as FATCA compliant and not subject to withholding. An FFI that satisfies the eligibility, information reporting and other requirements of the IGA will not be subject to the regular FATCA reporting and withholding obligations discussed below.
If the Company and/or Third Point Re BDA are treated as FFIs for purposes of FATCA, withholdable payments and foreign passthru payments made to the Company and/or Third Point Re BDA will be subject to a 30% withholding tax unless an FFI Agreement is in effect, pursuant to which the Company and/or Third Point Re BDA would be required to provide information regarding its U.S. direct or indirect owners and to comply with other reporting, verification, due diligence and other procedures established by the IRS, including a requirement to seek waivers of non-U.S. laws that would prevent the reporting of such information. The IRS may terminate the FFI Agreement if the IRS notifies the Company and/or Third Point Re BDA that it is out of compliance with the FFI Agreement and the Company and/or Third Point Re BDA does not remediate the compliance failure. Even if the Company and/or Third Point Re BDA are subject to an FFI Agreement, distributions to an investor that are treated as foreign passthru payments generally will be subject to a 30% withholding tax (a) if the investor fails to provide information or take other actions required for the the Company and/or Third Point Re BDA to comply with the FFI Agreement including, in the case of a non-U.S. investor, providing information regarding certain U.S. direct and indirect owners of the investor (and, in certain circumstances, obtaining waivers of non-U.S. law to permit such reporting), or (b) if the investor is an FFI, unless the investor (i) is subject to an FFI Agreement, (ii) establishes that an exemption applies or (iii) is required to comply with FATCA under an applicable IGA.
Under the regulations implementing FATCA, a foreign insurance company (or foreign holding company of an insurance company) that issues or is obligated to make payments with respect to an account is a foreign financial institution. For

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this purpose, insurance contracts treated as having "cash value" and annuity contracts issued or maintained by a financial institution are considered accounts, and certain term life insurance contracts are not considered accounts. Insurance companies that issue only property and casualty insurance contracts, or that only issue life insurance contracts lacking cash value (or that provide for limited cash value) generally would not be considered FFIs under the final regulations. However, a holding company may be treated as an FFI if it is formed in connection with or availed of by a collective investment vehicle, mutual fund, exchange traded fund, hedge fund, venture capital fund, leveraged buyout fund, or any similar investment vehicle established with an investment strategy of investing, reinvesting, or trading in financial assets. Moreover, a company may be treated as an FFI if its gross income is primarily attributable to investing, reinvesting, or trading in financial assets and the entity is managed by an FFI, or the entity functions or holds itself out as an investment vehicle established with an investment strategy of investing, reinvesting, or trading in financial assets. Even if the Company and/or Third Point Re BDA are not treated as FFIs, then depending on whether the shares of the Company are treated as "regularly traded on one or more more established securities markets" under the FATCA rules and whether the income and assets of Third Point Re BDA meet the requirements for the treatment of Third Point Re BDA as an "active NFFE," withholdable payments to the Company and/or Third Point Re BDA may be subject to a 30% withholding tax unless the Company and/or Third Point Re BDA provide information regarding its U.S. direct or indirect owners.

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

Risks Relating to Our Common Shares

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

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

A significant number of our common shares are currently restricted as a result of applicable securities laws, but are eligible for sale subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144. As of December 31, 2018, we also had reserved for issuance common shares underlying certain warrants to purchase, in the aggregate, up to 3,494,979 common shares. In addition, certain of our significant shareholders may distribute shares that they hold to their investors who themselves may then sell into the public market. Such sales may not be subject to the volume, manner of sale, holding period and other limitations of Rule 144. As resale restrictions end, the market price of our common shares could decline if the holders of those shares sell them or are perceived by the market as intending to sell them.

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

As of December 31, 2018, a total of 22,252,206 common shares were reserved for issuance under our current share incentive plans and in connection with restricted share award agreements entered into between us and certain of our employees and directors. As of December 31, 2018, there were share options outstanding (subject to vesting) for 8,888,053 common shares. We have registered on a Form S-8 registration statement these shares and all common shares that we may in future issue under our equity compensation plans. As a result, these shares can be freely sold in the public market upon issuance, subject to certain limitations applicable to affiliates.

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

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

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

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

Third Point Re was incorporated on October 6, 2011. On December 22, 2011, KIA TP Holdings, L.P. and KEP TP Holdings, L.P., which are affiliates of Kelso & Company (collectively, "Kelso") and Pine Brook LVR, L.P., an affiliate of Pine Brook Road Partners, LLC (collectively, "Pine Brook", and Pine Brook and together with Kelso, the "Lead Investors" and each individually, a "Lead Investor"), Dowling Capital Partners I, L.P., an affiliate of Dowling Capital Management, LLC (collectively, "Dowling"), P RE Opportunities Ltd. ("PROL"), Third Point LLC, Daniel S. Loeb and affiliates associated with Mr. Loeb (collectively, the "Loeb Entities") and John R. Berger (collectively, the "Founders"), together with certain members of management, committed $533.0 million to capitalize Third Point Re. As of December 31, 2018, Kelso, BlackRock, Inc., the Loeb Entities and the Company's directors and named executive officers, as defined in the proxy statement, beneficially own approximately 11.5%, 12.0%, 9.5% and 8.2% of our issued and outstanding common shares, respectively, on an as converted basis after giving effect to the issuance of vested warrants and options representing the right to purchase 10,834,938 common shares. As a result, Kelso, BlackRock, Inc., the Loeb Entities, our directors and named executive officers could exercise influence over matters requiring shareholder approval, including approval of significant corporate transactions, which may reduce the market price of our common shares.

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

The market price of our common shares may fluctuate significantly.

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

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

- any announcement by us or our competitors of a significant contract, acquisition, strategic transaction or expansion into a new line of business;
- any future sales of our common shares or other securities; and
- additions or departures of key personnel.

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

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

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

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

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

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

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

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

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

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

The Companies Act, which applies to us, differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. Set forth below is a summary of certain significant provisions of the Companies

Act and our bye-laws which differ in certain respects from provisions of Delaware corporate law. Because the following statements are summaries, they do not discuss all aspects of Bermuda law that may be relevant to us and our shareholders.

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

- the material facts as to such interested director's relationship or interests were disclosed or were known to the Board of Directors and the Board of Directors had in good faith authorized the transaction by the affirmative vote of a majority of the disinterested directors;
- such material facts were disclosed or were known to the shareholders entitled to vote on such transaction and the transaction were specifically approved in good faith by vote of the majority of shares entitled to vote thereon; or
- the transaction were fair as to the corporation as of the time it was authorized, approved or ratified. Under Delaware law, the interested director could be held liable for a transaction in which the director derived an improper personal benefit.

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

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

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

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

In general, and except as provided under our bye-laws and as described below, the common shareholders have one vote for each common share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders. However, if, and so long as, the shares of a shareholder are treated as “controlled shares” (as determined pursuant to sections 957 and 958 of the Code of any United States person (that owns shares directly or indirectly through non-U.S. entities) and such controlled shares constitute 9.5% or more of the votes conferred by our issued shares, the voting rights with respect to the controlled shares owned by such United States person will be limited, in the aggregate, to a voting power of less than 9.5%, under a formula specified in our bye-laws. The formula is applied repeatedly until the voting power of all 9.5% U.S. shareholders has been reduced to less than 9.5%. In addition, our Board of Directors may limit a shareholder’s voting rights when it deems it appropriate to do so to (i) avoid the existence of any 9.5% U.S. shareholder; and (ii) avoid certain material adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any direct or indirect shareholder or its affiliates. “Controlled shares” include, among other things, all shares that a United States person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code). The amount of any reduction of votes that occurs by operation of the above limitations will generally be reallocated proportionately among our other shareholders whose shares were not “controlled shares” of the 9.5% U.S. shareholder so long as such reallocation does not cause any person to become a 9.5% U.S. Shareholder.

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

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

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

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

For example, our bye-laws:

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company leases office space in Pembroke, Bermuda where the Company's principal executive office is located. Additionally, the Company leases office space in Jersey City, New Jersey for Third Point Re USA's operations. We renew and enter into new leases in the ordinary course of business. For further discussion of our leasing commitments at December 31, 2018, refer to Note 23 to the accompanying consolidated financial statements.

Item 3. Legal Proceedings

We are not currently involved in any litigation or arbitration. We anticipate that, similar to the rest of the reinsurance industry, we will be subject to litigation and arbitration from time to time in the ordinary course of business.

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

Our common shares are listed on the NYSE under the symbol "TPRE". On February 25, 2019, the latest practicable date, the last reported sale price of our common shares was $11.23 per share and there were 53 holders of record of our common shares. This number does not include shareholders for whom our shares were held in "street" name.

Dividends

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

Equity Compensation Plans

The following table presents information concerning the securities authorized for issuance pursuant to our equity compensation plans as of December 31, 2018:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights (2)	Number of securities available for future issuance under equity compensation plans (excluding securities

			reflected in Column 1) (3)
Equity compensation plans approved by shareholders	8,888,053	$ 13.43	9,017,930
Equity compensation plans not approved by shareholders	—	n/a	—
Total	8,888,053	$ 13.43	9,017,930

(1) Represents the number of shares associated with options outstanding as of December 31, 2018.
(2) Represents the weighted average exercise price of options disclosed.
(3) Represents the number of shares remaining available for issuance with respect to future awards under our Omnibus Equity Incentive Plan.

Performance

The following graph compares the cumulative total shareholder return on our common shares as compared to the cumulative total return of (1) S&P 500 Composite Stock Index ("S&P 500") and (2) the Dow Jones Property & Casualty Insurance Index ("Dow Jones P&C") for the five year period commencing December 31, 2013 through to December 31, 2018. The share price performance presented below is not necessarily indicative of future results.

	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
tTPRE	$ 100.00	$ 78.20	$ 72.37	$ 62.33	$ 79.06	$ 52.02
S&P 500	$ 100.00	$ 111.39	$ 110.58	$ 121.13	$ 144.65	$ 135.63
pDow Jones P&C	$ 100.00	$ 109.80	$ 117.51	$ 135.09	$ 155.86	$ 147.58

1. The above graph assumes that the value of the investment was $100 on December 31, 2013.
2. This graph is not "soliciting material," is not deemed filed with the SEC and is not to be incorporated by reference in any filing by us under the Securities Act of 1933 or the Securities and Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

Issuer Purchases of Equity Securities

The following table summarizes our repurchase of common shares during the three months ended December 31, 2018:

	(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)
October 1, 2018 - October 31, 2018	—	$ —	—	$66,620,294
November 1, 2018 - November 30, 2018	268,228	10.54	268,228	63,792,097
December 1, 2018 - December 31, 2018	257,557	9.69	257,557	61,295,462
Total	525,785	$ 10.13	525,785	$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.

During the year ended December 31, 2018, the Company repurchased 10,311,123 (December 31, 2017 - 3,300,152) of its common shares in the open market for an aggregate cost of $138.7 million (December 31, 2017 - $40.9 million) at a weighted average cost, including commissions, of $13.45 (December 31, 2017 - $12.38) per share. Common shares repurchased by the Company were not canceled and are classified as treasury shares.

As of December 31, 2018, the Company was authorized to repurchase up to an aggregate of $61.3 million of additional common shares under its share repurchase program.

Item 6. Selected Financial Data.

The following tables set forth certain of our selected financial data as of and for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 and has been derived from our consolidated financial statements. Our historical results are not necessarily indicative of the results that may be expected for any future period. The selected financial data should be read in conjunction with Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this Annual Report.

	2018	2017	2016	2015	2014
	($ in thousands, except share and per share data)				
Selected Statement of Income (Loss) Data:					
Net premiums written	$558,357	$639,145	$615,049	$700,538	$613,150
Net premiums earned	621,442	547,058	590,190	602,824	444,532
Net investment income (loss)	(251,433)	391,953	98,825	(28,074)	85,582
Loss and loss adjustment expenses incurred, net	438,414	370,058	395,932	415,191	283,147
Acquisition costs, net	206,498	188,904	222,150	191,216	137,206
General and administrative expenses	36,241	53,103	39,367	46,033	40,008
Other expenses	9,610	12,674	8,387	8,614	7,395
Interest expense	8,228	8,225	8,231	7,236	—
Foreign exchange gains (losses)	7,503	(12,300)	19,521	3,196	—
Income tax (expense) benefit	4,010	(11,976)	(5,593)	2,905	(5,648)
Net income (loss)	(317,469)	281,771	28,876	(87,439)	56,710
Net income (loss) available to Third Point Re common shareholders	$(317,692)	$277,798	$27,635	$(87,390)	$50,395
Basic earnings (loss) per share available to Third Point Re common shareholders	$(3.27)	$2.71	$0.26	$(0.84)	$0.48
Diluted earnings (loss) per share available to Third Point Re common shareholders	$(3.27)	$2.64	$0.26	$(0.84)	$0.47
Property and Casualty Reinsurance Segment - Selected Ratios (1):					
Loss ratio	70.6%	67.6%	67.1%	68.9%	65.5%
Acquisition cost ratio	33.2%	34.5%	37.6%	31.7%	31.5%
Composite ratio	103.8%	102.1%	104.7%	100.6%	97.0%
General and administrative expense ratio	3.0%	5.6%	3.8%	4.1%	5.2%
Combined ratio	106.8%	107.7%	108.5%	104.7%	102.2%
Net investment return on investments managed by TP LLC (2)	(10.8)%	17.7%	4.2%	(1.6)%	5.1%

(1) Underwriting ratios are for the property and casualty reinsurance segment only. See additional information in Note 24 to our consolidated financial statements included elsewhere in this Annual Report. Underwriting ratios are calculated by dividing the related expense by net premiums earned.

(2) The net investment return on investments managed by Third Point LLC is the percentage change in value of a dollar invested over the reporting period on our net investment assets managed by Third Point LLC, net of noncontrolling interests. The stated return is net of withholding taxes, which were presented as a component of income tax expense (benefit) in our consolidated statements of income (loss) prior to the change in the investment account structure described in Note 4 to our audited financial statements. In addition, for the year ended December 31, 2018, the stated return reflect the combined results of net investments managed by Third Point LLC prior to the transition date of August 31, 2018 and the investment in the Third Point Enhanced LP and collateral assets from the date of transition. Net investment return is the key indicator by which we measure the performance of Third Point LLC, our investment manager.

	2018	2017	2016	2015	2014
	($ in thousands, except per share data)				
Selected Balance Sheet Data:					
Total investments in securities (1)	$1,523,728	$2,995,939	$2,647,512	$2,317,244	$1,830,838
Cash and cash equivalents (2)	104,183	8,197	9,951	20,407	28,734
Restricted cash and cash equivalents	609,154	541,136	298,940	330,915	417,307
Reinsurance balances receivable, net	602,448	476,008	381,951	294,313	303,649
Deferred acquisition costs, net	203,842	258,793	221,618	197,093	155,901
Total assets	3,086,234	4,671,794	3,895,644	3,545,108	2,852,580
Reinsurance balances payable	69,701	41,614	43,171	24,119	27,040
Deposit liabilities (3)	145,342	129,133	104,905	83,955	145,430
Unearned premium reserves	602,936	649,518	557,076	531,710	433,809
Loss and loss adjustment expense reserves	937,157	720,570	605,129	466,047	277,362
Total liabilities (1)	1,881,660	2,902,079	2,445,919	2,149,225	1,300,532
Shareholders' equity attributable to Third Point Re common shareholders	1,204,574	1,656,089	1,414,051	1,379,726	1,451,913
Total shareholders' equity	$1,204,574	$1,661,496	$1,449,725	$1,395,883	$1,552,048
Book value per share data:					
Basic book value per share (4)	$13.15	$16.33	$13.57	$13.23	$14.04
Diluted book value per share (4)	$12.98	$15.65	$13.16	$12.85	$13.55
Selected ratios:					
Change in diluted book value per share (4)	(17.1)%	18.9 %	2.4 %	(5.2)%	3.3 %
Return on beginning shareholders' equity attributable to Third Point Re common shareholders (4)	(20.0)%	20.1 %	2.0 %	(6.0)%	3.6 %

(1) Effective August 31, 2018, Third Point Re and the TPRE Limited Partners entered into the 2018 LPA to invest in 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 the TPRE Limited Partners received limited partnership interests in TP Fund in exchange. The TPRE Limited Partners no longer directly hold their invested assets and liabilities but instead, hold an investment in TP Fund. See Notes 4 and 11 to our consolidated financial statements included elsewhere in this Annual Report for additional information regarding the LPA and TP Fund.

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

(3) Using the deposit method of accounting, a deposit liability, rather than written premium, is initially recorded based upon the consideration received less any explicitly identified premiums or fees. In subsequent periods, the deposit liability is adjusted by calculating the effective yield on the deposit to reflect actual payments to date and future expected payments.

(4) Basic book value per share, diluted book value per share, change in diluted book value per share and return on beginning shareholders' equity attributable to Third Point Re common shareholders are non-GAAP financial measures. There are no comparable GAAP measures. See the reconciliations under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Financial Measures."

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended to help the reader understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion in conjunction with Part II, Item 6. "Selected Financial Data", and our consolidated financial statements and the related notes contained elsewhere in this Annual Report on Form 10-K for the fiscal year ended December 31, 2018 ("Annual Report").

The statements in this discussion regarding business outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to our Introductory Note to this Annual Report and the risks and uncertainties described in Part I, Item 1A "Risk Factors." Our actual results may differ materially from those contained in or implied by any forward-looking statements.

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

Overview

We are a holding company domiciled in Bermuda. Through our reinsurance subsidiaries, we provide specialty property and casualty reinsurance products to insurance and reinsurance companies on a worldwide basis. Our goal is to deliver attractive equity returns to our shareholders by combining profitable reinsurance underwriting with superior investment management provided by Third Point LLC, our investment manager and the investment manager of 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 (gains) losses and income tax (expense) benefit.

Property and Casualty Reinsurance

We provide reinsurance products to insurance and reinsurance companies, government entities, and other risk bearing vehicles. Contracts can be written on an excess of loss basis or quota share basis, although the majority of contracts written to date have been on a quota share basis. In addition, we write contracts on both a prospective basis and a retroactive basis. Prospective reinsurance contracts cover losses incurred as a result of future insurable events. Retroactive reinsurance contracts cover the potential for changes in estimates of loss and loss adjustment expense reserves related to loss events that have occurred in the past. Retroactive reinsurance contracts can be an attractive type of contract for us as they can generate an underwriting profit should the ultimate loss and loss adjustment expenses settle for less than the initial estimate of reserves and the premiums received at the inception of the contract generate insurance float.

The product lines that we currently underwrite for this operating segment are: property, casualty and specialty. We 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 started writing a modest amount of property catastrophe business in 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

During the period covered by this report, we transitioned to a new investment account structure. Under the new investment account structure, Third Point LLC serves as investment manager for TP Fund as well as for our collateral assets. See Item 1. “Business” and Note 4 to the consolidated financial statements included in this Form 10-K for further information regarding the current investment account structure.

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 new 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.
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.

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, we added experienced senior underwriters with strong market relationships to our team and we will continue to expand our underwriting team in 2019.

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

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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 years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
	($ in thousands, except for per share data and ratios)		
Key underwriting metrics for Property and Casualty Reinsurance segment:			
Net underwriting loss [(1)]	$(42,105)	$(42,560)	$(50,052)
Combined ratio [(1)]	106.8 %	107.7 %	108.5 %
Key investment return metrics:			
Net investment income (loss)	$(251,433)	$391,953	$98,825
Net investment return on investments managed by Third Point LLC	(10.8)%	17.7 %	4.2 %
Key shareholders' value creation metrics:			
Basic book value per share [(2)]	$13.15	$16.33	$13.57
Diluted book value per share [(2)]	$12.98	$15.65	$13.16
Change in diluted book value per share [(2)]	(17.1)%	18.9 %	2.4 %
Return on beginning shareholders' equity attributable to Third Point Re common shareholders [(2)]	(20.0)%	20.1 %	2.0 %

(1) See Note 24 to the accompanying consolidated financial statements for a calculation of net underwriting loss and combined ratio.

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

Key Underwriting Metrics for Property and Casualty Reinsurance segment

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

Key Investment Return Metrics

Net Investment Income (Loss)

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 December 31, 2018, basic book value per share was $13.15, representing a decrease of $3.18 per share, or 19.5%, from $16.33 per share as of December 31, 2017. As of December 31, 2017, basic book value per share was $16.33, representing an increase of $2.76 per share, or 20.3%, from $13.57 per share as of December 31, 2016. The changes were primarily due to the impact of share repurchases and the net income (loss) in the year.
As of December 31, 2018, diluted book value per share was $12.98, representing a decrease of $2.67 per share, or 17.1%, from $15.65 per share as of December 31, 2017. As of December 31, 2017, diluted book value per share was $15.65, representing an increase of $2.49 per share, or 18.9%, from $13.16 per share as of December 31, 2016. The changes were primarily due to the impact of share repurchases and the net income (loss) in the year.
The changes in basic book value per share and diluted book value per share were affected by share activity including share repurchases and the issuance of performance restricted shares.
Return on Beginning Shareholders' Equity Attributable to Third Point Re Common Shareholders
Return on beginning shareholders' equity attributable to Third Point Re common shareholders as presented is a non-GAAP financial measure. See "Non-GAAP Financial Measures and Other Financial Metrics" for reconciliation.
The changes in return on beginning shareholders' equity attributable to Third Point Re common shareholders for the years ended December 31, 2018 and December 31, 2017 compared to the years ended December 31, 2017 and December 31, 2016, respectively, were primarily due to net income (loss) during the year.
Consolidated Results of Operations—Years ended December 31, 2018, 2017 and 2016
The following table sets forth the key items discussed in the consolidated results of operations section, and the year over year changes, for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	Change	2016	Change
	($ in thousands)				
Net underwriting income (loss)	$(42,105)	$(42,560)	$455	$(50,052)	$7,492
Net investment income (loss)	(251,433)	391,953	(643,386)	98,825	293,128
Net investment return on investments managed by Third Point LLC	(10.8)%	17.7%	(28.5)%	4.2%	13.5%
Corporate expenses	(17,606)	(22,447)	4,841	(17,207)	(5,240)
Other expenses	(9,610)	(12,674)	3,064	(8,387)	(4,287)
Interest expense	(8,228)	(8,225)	(3)	(8,231)	6
Foreign exchange gains (losses)	7,503	(12,300)	19,803	19,521	(31,821)
Income tax (expense) benefit	4,010	(11,976)	(15,986)	(5,593)	6,383
Net income (loss) available to Third Point Re common shareholders	$(317,692)	$277,798	$(595,490)	$27,635	$250,163

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 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 December 31, 2018 and 2017 by strategy and geography. The tables as of December 31, 2018 include our investments in TP Fund and collateral assets managed by Third Point LLC. The tables as of December 31, 2017 include collateral assets managed by Third Point LLC and our investments in the separate accounts in place prior to the change in the investment account structure described in Note 4 to the consolidated financial statements included in this Form 10-K.

	December 31, 2018			December 31, 2017		
	Long	Short	Net	Long	Short	Net
Equity	54 %	(22)%	32 %	98 %	(25)%	73 %
Credit	18 %	(4)%	14 %	16 %	(4)%	12 %
Other	9 %	(1)%	8 %	10 %	(2)%	8 %
	81 %	(27)%	54 %	124 %	(31)%	93 %

	December 31, 2018			December 31, 2017		
	Long	Short	Net	Long	Short	Net
Americas	70 %	(21)%	49 %	93 %	(29)%	64 %
Europe, Middle East and Africa	11 %	(3)%	8 %	7 %	— %	7 %
Asia	— %	(3)%	(3)%	24 %	(2)%	22 %
	81 %	(27)%	54 %	124 %	(31)%	93 %

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 years ended December 31, 2018, 2017 and 2016. The net investment return includes our investment accounts, inclusive of collateral assets managed by Third Point LLC, prior to August 31, 2018, the date of the change in the investment account structure described in Note 4 to the consolidated financial statements included in this Form 10-K, and our investment in TP Fund and collateral assets managed by Third Point LLC from the date of the transition.

	2018		
	Long	Short	Net
Equity	(8.7)%	0.1 %	(8.6)%
Credit	— %	(0.2)%	(0.2)%
Other	(2.8)%	0.8 %	(2.0)%
Net investment return on investments managed by Third Point LLC	(11.5)%	0.7 %	(10.8)%
S&P 500 Total Return Index			(4.4)%

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

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

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 Note 4 to our consolidated financial statements 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 year ended December 31, 2018, the net investment results were primarily attributable to losses generated by long equity investments, a merger arbitrage position, and exposure to cyclical sectors negatively impacted by slowing global growth. Short selling generated positive returns and mitigated further losses in equities. The credit portfolio produced a modest overall loss. The asset-backed securities portfolio’s gains were reduced by losses in corporate credit.

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

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

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 years ended December 31, 2018 compared to the prior year periods were primarily due to the following:

Corporate Expenses

General and administrative expenses allocated to corporate activities include allocations of payroll and related costs for certain executives and non-underwriting activities. We also allocate a portion of overhead and other related costs based on a headcount analysis. The decrease in general and administrative expenses related to corporate activities for the year ended December 31, 2018 compared to the year ended December 31, 2017 was primarily due to a decrease in our annual incentive plan compensation expense, partially offset by higher stock compensation expense in the current year. Our annual incentive plan is based on the Company’s return on average equity and the combined ratio.

The increase for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to an increase in our annual incentive plan compensation expense where we did not achieve the threshold performance target in 2016, lower share compensation expense in 2016 due to forfeitures and fewer restricted shares with performance and service conditions considered probable of vesting, partially offset by separation costs in 2016.

Other Expenses

Other expenses are comprised of expenses relating to interest crediting features in certain reinsurance and deposit contracts. The decrease in other expenses for the year ended December 31, 2018 compared to the year ended December 31, 2017 was primarily due to two deposit contracts that were commuted in 2018, resulting in gains recognized. We also revised estimates of underlying assumptions in the current year period on certain deposit liability contracts resulting in a decrease in other expenses compared to the prior year period.

The increase in other expenses for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to revised estimates of underlying assumptions on our deposit liability contracts in the year ended December 31, 2016 that resulted in a decrease in other expenses.

Interest Expense

In February 2015, TPRUSA issued $115.0 million of senior notes bearing 7.0% interest. As a result, our consolidated results of operations include interest expense related to the senior notes.

Foreign Exchange Gains (Losses)

The foreign exchange gains were primarily due to the revaluation of foreign currency loss and loss adjustment expense reserves denominated in British pounds to the United States dollar, which had strengthened during the 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 gains (losses) on loss and loss adjustment expense reserves in the current year periods were offset by corresponding foreign exchange gains (losses) included in net investment income (loss) resulting from the revaluation of foreign currency reinsurance collateral held in trust accounts. Refer to "ITEM 7A. Quantitative and Qualitative Disclosures about Market Risks" for further discussion on foreign currency risk related to our reinsurance contracts.

Income Taxes

See Note 16 to our consolidated financial statements for additional information regarding income taxes. The decrease in income tax expense for the year ended December 31, 2018 compared to the year ended December 31, 2017 was primarily the result of a decrease in taxable income generated by our U.S. subsidiaries.

Segment Results—Years ended December 31, 2018, 2017 and 2016

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 year over year changes for the Property and Casualty Reinsurance segment for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	Change	2016	Change
	($ in thousands)				
Gross premiums written	$578,252	$641,620	$(63,368)	$617,374	$24,246
Gross premiums ceded	(19,895)	(2,475)	(17,420)	(2,325)	(150)
Net premiums earned	621,442	547,058	74,384	590,190	(43,132)
Loss and loss adjustment expenses incurred, net	438,414	370,058	68,356	395,932	(25,874)
Acquisition costs, net	206,498	188,904	17,594	222,150	(33,246)
General and administrative expenses	18,635	30,656	(12,021)	22,160	8,496
Net underwriting income (loss)	$(42,105)	$(42,560)	$455	$(50,052)	$7,492
Underwriting ratios [1]:					
Loss ratio	70.6%	67.6%	3.0%	67.1%	0.5%
Acquisition cost ratio	33.2%	34.5%	(1.3)%	37.6%	(3.1)%
Composite ratio	103.8%	102.1%	1.7%	104.7%	(2.6)%
General and administrative expense ratio	3.0%	5.6%	(2.6)%	3.8%	1.8%
Combined ratio	106.8%	107.7%	(0.9)%	108.5%	(0.8)%

(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 years ended December 31, 2018, 2017 and 2016:

	2018		2017		2016	
	($ in thousands)					
Property	$9,070	1.6 %	$136,999	21.4 %	$98,334	15.9 %
Casualty	235,789	40.8 %	269,759	42.0 %	213,050	34.5 %
Specialty	259,173	44.8 %	125,511	19.6 %	305,990	49.6 %
Total prospective reinsurance contracts	504,032	87.2 %	532,269	83.0 %	617,374	100.0%
Retroactive reinsurance contracts	74,220	12.8 %	109,351	17.0 %	—	— %
	$578,252	100.0%	$641,620	100.0%	$617,374	100.0%

The decrease in gross premiums written of $63.3 million, or 9.9%, for the year ended December 31, 2018 compared to the year ended December 31, 2017 was driven by:

Factors resulting in decreases:

- We recognized a net increase in premium of $160.9 million in the year ended December 31, 2018 compared to a net increase of $301.7 million in the twelve months ended December 31, 2017 related to the net impact of contract extensions, cancellations and contracts renewed with no comparable premium in the comparable period.
- We recognized $108.5 million of premium in the year ended December 31, 2017 related to contracts that we did not renew in the year ended December 31, 2018 as a result of underlying pricing, terms and conditions.
- Changes in renewal premiums for the year ended December 31, 2018 resulted in a net decrease in premiums of $21.2 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.
- We recorded net increases in premium estimates relating to prior periods of $12.0 million and $25.6 million the years ended December 31, 2018 and 2017, respectively. The increases in premium estimates for the year ended December 31, 2018 and 2017 were due to several contracts for which clients provided updated projections indicating that they expected to write more business than initially estimated.

Factor resulting in an increase:

- For the year ended December 31, 2018, we wrote $220.8 million of new premium, of which $122.8 million was specialty business, including one multi-line contract covering casualty and specialty risks for $101.1 million, $83.4 million was casualty business and $14.6 million was property business.

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

Factors resulting in increases:

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

Factors resulting in decreases:

- We recognized $161.1 million of premium in the year ended December 31, 2016 related to contracts that we did not renew in the year ended December 31, 2017 due to changes in pricing and/or terms and conditions.
- We recognized net increases in premium of $148.3 million and $226.2 million in the years ended December 31, 2017 and 2016, respectively, related to the net impact of contract extensions, cancellations and contracts written in the prior year with no comparable premium in the current year period.
- We recorded increases in premium estimates relating to prior periods of $25.6 million and $106.6 million for the years ended December 31, 2017 and 2016, respectively. The increase in premium estimates for the year ended December 31, 2017 was due to several contracts for which clients provided updated projections indicating that they expected to write more business than initially estimated. The significant increase in premium estimates for the year ended December 31, 2016 was primarily due to the following factors:

We wrote one large credit and financial lines quota share, covering primarily mortgage business, whereby the ceding company significantly increased their writings, which resulted in a $46.9 million premium estimate increase in 2016 on this contract;

We wrote a multi-line contract for several underwriting years covering commercial auto physical damage and auto extended warranty. As this was a new and growing program, we initially recorded the cedent's estimate of expected written premium at a lower amount than their initial estimate. The ceding company exceeded their premium projections resulting in an increase of $23.6 million related to that contract; and

We wrote a general liability quota share contract in 2015 whereby the ceding company increased their writings, which resulted in a $20.8 million premium estimate increase in 2016 on this contract.

Gross Premiums Ceded

The increase in gross premiums ceded for the year ended December 31, 2018 compared to the year ended December 31, 2017 was primarily due to a new ceded contract covering certain of our 2018 mortgage contracts. Gross premiums ceded for the year ended December 31, 2017 compared to the year ended December 31, 2016 were consistent.

Net Premiums Earned

The increase in net premiums earned for the year ended December 31, 2018 compared to the year ended December 31, 2017 was primarily due to a higher in-force underwriting portfolio, partially offset by retroactive exposures in reinsurance contracts that were written and fully earned in the prior year period of $109.4 million compared to $74.2 million for the year ended December 31, 2018.

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

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, prior years' reserve development and catastrophe losses in 2018.

In the year ended December 31, 2018, we incurred $18.5 million of catastrophe losses, or 3.0 percentage points on the combined ratio, related to the California wildfires and other catastrophe events compared to $5.3 million in the year ended December 31, 2017, or 1.0 percentage point, relating to the 2017 catastrophe events. Although we have not specifically written property catastrophe contracts in 2018 or in prior years, we were exposed to California wildfire losses through liability reinsurance of the utilities in California during 2018. As a result, we recorded $11.3 million of losses relating to the liability exposure from the California utilities. The remainder of the $18.5 million in total catastrophe losses related to incidental exposure that we had to catastrophic events on two Florida homeowners contracts (Hurricane Michael) and on two whole account reinsurance contracts.

The following is a summary of the net impact from loss reserve development for the years ended December 31, 2018, 2017 and 2016:

For the year ended December 31, 2018, we recognized $12.9 million, or 2.1 percentage points on the combined ratio, of net favorable prior years' reserve development as a result of decreases in loss reserve estimates. The $12.9 million of net favorable prior years' reserve development for the year ended December 31, 2018 was accompanied by net increases of $7.7 million, or 1.2 percentage points on the combined ratio, in acquisition costs resulting in a $5.2 million, or 0.8 percentage points on the combined ratio, improvement in net underwriting results. The improvement in the net underwriting results was primarily due to the following factors:

- $15.8 million of net favorable underwriting loss development relating to workers' compensation, multi-line and credit and financial lines contracts. The favorable development was the result of better than expected loss experience and was partially offset by;
- $10.5 million of net adverse underwriting loss development primarily relating to our general liability and homeowners' contracts, as a result of worse than expected loss experience.

For the year ended December 31, 2017, we incurred $22.3 million, or 4.1 percentage points on the combined ratio, of net favorable prior years' reserve development as a result of decreases in loss reserve estimates. The $22.3 million of net favorable prior years' reserve development for the year ended December 31, 2017 was accompanied by net increases of $19.8 million, or 3.6 percentage points on the combined ratio, in acquisition costs, resulting in a $2.5 million, or 0.5 percentage points on the combined ratio, improvement in net underwriting results. The improvement in the net underwriting results was primarily due to the following factors:

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

For the year ended December 31, 2016, we incurred $10.5 million, or 1.8 percentage points on the combined ratio, of net adverse prior years' reserve development as a result of increases in loss reserve estimates. The $10.5 million of net adverse prior years' reserve development for the year ended December 31, 2016 was accompanied by net increases of

$2.0 million, or 0.3 percentage points on the combined ratio, in acquisition costs, resulting in a net adverse development of $12.5 million in net underwriting results, or 2.1 percentage points on the combined ratio. The net underwriting results impact of the adverse loss development was due to:

- $4.8 million of net adverse underwriting loss development relating to one multi-line contract written since 2014. This contract contains underlying commercial auto physical damage and auto extended warranty exposure. The adverse loss experience was a result of an increase in the number of reported claims and inadequate pricing in certain segments of the underlying business;
- $4.0 million of net adverse underwriting loss development relating to non-standard auto contracts, primarily due to the inability of cedents to promptly react to increasing frequency and severity trends, resulting in underpriced business and adverse selection;
- $3.7 million of net adverse underwriting loss development relating to our Florida homeowners' contracts primarily as a result of higher than anticipated water damage claims and an increase in the practice of assignment of benefits whereby homeowners assign their rights for filing and settling claims to attorneys and public adjusters, which we believe has led to an increase in the frequency of claims reported as well as the severity of losses and loss adjustment expenses;
- $3.3 million of net adverse underwriting loss development relating to a workers' compensation contract written from 2012 to 2014 under which we have been experiencing higher than expected claims development that led to an increase in our previous loss assumptions on this contract; and
- $2.1 million of net favorable underwriting loss development from several other contracts.

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 year ended December 31, 2018 was primarily due to a change in mix of business resulting in a higher acquisition cost expense amount.

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

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

General and Administrative Expenses

The decrease in general and administrative expenses allocated to underwriting activities and the related general and administrative expenses ratio for the year ended December 31, 2018 compared to the year ended December 31, 2017 was the result of lower payroll related costs primarily due to lower annual incentive plan compensation expense accruals, partially offset by higher stock compensation expense and professional fees. Our annual incentive plan is based on a formula derived from certain financial performance metrics. Our incentive plan accrual was lower for the year ended December 31, 2018 compared to the year ended December 31, 2017 to reflect the lower performance of the Company in the year relative to the incentive plan compensation performance metrics. The higher stock compensation expense is a result of an increase of our accruals for restricted shares with performance conditions reflecting improvement in our projected underwriting results. The increase in professional fees is primarily due to legal, accounting and consulting fees incurred in conjunction with the investment restructuring.

The increase in general and administrative expenses related to corporate activities for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to an increase in our annual incentive plan compensation expense, partially offset by lower stock compensation expense in 2017 and separation costs in 2016.

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. As a result of the change in the Company's investment account structure described in Note 4 to the accompanying consolidated financial statements, we no longer calculate investment income on float.

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, the Collateral Assets are managed by Third Point LLC from the effective date. See Note 4 to our consolidated financial statements 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.

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 book value per share, basic book value per share and diluted book value per share as of December 31, 2018, 2017 and 2016 :

	2018	2017	2016
Basic and diluted book value per share numerator:	($ in thousands, except share and per share amounts)		
Shareholders' equity attributable to Third Point Re common shareholders	$1,204,574	$1,656,089	$1,414,051
Effect of dilutive warrants issued to founders and an advisor (1)	—	46,512	46,512
Effect of dilutive stock options issued to directors and employees (1)	—	51,422	52,930
Diluted book value per share numerator:	$1,204,574	$1,754,023	$1,513,493
Basic and diluted book value per share denominator:			
Common shares outstanding	93,639,610	103,282,427	105,856,531
Unvested restricted shares	(2,025,113)	(1,873,588)	(1,682,783)
Basic book value per share denominator:	91,614,497	101,408,839	104,173,748
Effect of dilutive warrants issued to founders and an advisor (1)	—	4,651,163	4,651,163
Effect of dilutive stock options issued to directors and employees (1)	—	5,123,531	5,274,333
Effect of dilutive restricted shares issued to directors and employees (2)	1,209,285	905,412	878,529
Diluted book value per share denominator:	92,823,782	112,088,945	114,977,773
Basic book value per share	$13.15	$16.33	$13.57
Diluted book value per share	$12.98	$15.65	$13.16

(1) As a result of the Company’s share price being under the minimum strike price for warrants and options as of December 31, 2018, there was no dilution from warrants and stock options.

(2) As of December 31, 2018, the effect of dilutive restricted shares issued to directors and employees was comprised of 24,065 restricted shares with a service condition only and 1,185,220 restricted shares with a service and performance condition that were considered probable of vesting.

Return on Beginning Shareholders’ Equity Attributable to Third Point Re Common Shareholders

Return on beginning shareholders’ equity attributable to Third Point Re common shareholders, as presented, is a non-GAAP financial measure. Return on beginning shareholders’ equity attributable to Third Point Re common shareholders is calculated by dividing net income (loss) available to Third Point Re common shareholders by the beginning shareholders’ equity attributable to Third Point Re common shareholders. We believe that return on beginning shareholders’ equity attributable to Third Point Re common shareholders is an important measure because it assists our management and investors in evaluating the Company’s profitability. For the years ended December 31, 2018 and 2017, we have also adjusted the beginning shareholders’ equity attributable to Third Point Re common shareholders for the impact of the shares repurchased on a weighted average basis. 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 years ended December 31, 2018, 2017 and 2016 was calculated as follows:

	2018	2017	2016
	($ in thousands)		
Net income (loss) available to Third Point Re common shareholders	$(317,692)	$277,798	$27,635
Shareholders' equity attributable to Third Point Re common shareholders - beginning of year	1,656,089	1,414,051	1,379,726
Impact of weighting related to shareholders' equity from shares repurchased	(65,120)	(29,038)	(4,363)
Adjusted shareholders' equity attributable to Third Point Re common shareholders - beginning of year	$1,590,969	$1,385,013	$1,375,363
Return on beginning shareholders' equity attributable to Third Point Re common shareholders	(20.0)%	20.1%	2.0%

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 24 to our consolidated financial statements.

Combined Ratio for Property and Casualty Reinsurance Segment

Combined ratio is calculated by dividing the sum of loss and loss adjustment expenses incurred, net, acquisition costs, net and general and administrative expenses related to underwriting activities by net premiums earned. This ratio is a key indicator of a reinsurance company's underwriting profitability. A combined ratio of greater than 100% means that loss and loss adjustment expenses, acquisition costs and general and administrative expenses related to underwriting activities exceeded net premiums earned. See additional information in Note 24 to our consolidated financial statements.

Liquidity and Capital Resources

Liquidity Requirements

Third Point Re is a holding company and has no substantial operations of its own. 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. Under the Companies Act, as amended, a Bermuda company may declare or pay a dividend out of distributable reserves only if it has reasonable grounds for believing that it is, or would after the payment, be able to pay its liabilities as they become due and if the realizable value of its assets would thereby not be less than its liabilities. Under the Insurance Act, Third Point Re BDA and Third Point Re USA, as Class 4 insurers, are prohibited from declaring or paying a dividend if they are in breach of their respective minimum solvency margin ("MSM"), enhanced capital requirement ("ECR") or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. Where either Third Point Re BDA or Third Point Re USA, as Class 4 insurers, fails to meet its MSM or minimum liquidity ratio on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA.

In addition, each of Third Point Re BDA and Third Point Re USA, as Class 4 insurers, is prohibited from declaring or paying in any financial year dividends of more than 25% of its respective total statutory capital and surplus (as shown

on its previous financial year's statutory balance sheet) unless it files (at least seven days before payment of such dividend) with the BMA an affidavit signed by at least two directors (one of whom must be a Bermuda resident director if any of the insurer's directors are resident in Bermuda) and the principal representative stating that it will continue to meet its solvency margin and minimum liquidity ratio.

As of December 31, 2018, Third Point Re BDA could pay dividends to Third Point Re of approximately $260.8 million (December 31, 2017 - $357.5 million). Third Point Re USA has also entered into a Net Worth Maintenance Agreement that further restricts the amount of capital and surplus it has available for the payment of dividends. In order to comply with the Net Worth Maintenance Agreement, we have committed to ensuring that Third Point Re USA will maintain a minimum level of capital of $250.0 million. Failure of Third Point Re USA to maintain the minimum level of capital required by the Net Worth Maintenance Agreement could limit or prevent Third Point Re USA from paying dividends to us. As a result, Third Point Re USA could pay dividends ultimately to Third Point Re of approximately $1.4 million as of December 31, 2018 (December 31, 2017 - $24.3 million).

In addition to the regulatory and other contractual constraints to paying dividends, we manage the capital of the group and each of our operating subsidiaries to support our current ratings from A.M. Best. This could further reduce the ability and amount of dividends that could be paid from Third Point Re BDA or Third Point Re USA to Third Point Re.

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 13 to our consolidated financial statements for detailed information on our Senior Notes.

Third Point Re may also require cash to fund share repurchases. See Note 17 to our consolidated financial statements for detailed information on our share repurchases.

For additional commitments and contingencies that may affect our liquidity requirements see Note 23 to our 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 Item 1. "Business" and Note 4 to our consolidated financial statements 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: (l) premiums collected and investment earnings realized and (2) loss and loss expenses paid, reinsurance purchased, underwriting and other expenses paid. Cash flows from operations may differ substantially from net income (loss) and may be volatile from period to period depending on the underwriting opportunities available to us and other factors. Due to the nature of our underwriting portfolio, claim payments can be unpredictable and may need to be made within relatively short periods of time. Claim payments can also be required several months or years after premiums are collected.

Operating, investing and financing cash flows for the years ended December 31, 2018, 2017 and 2016 were as follows:

	2018	2017	2016
	($ in thousands)		
Net cash provided by (used in) operating activities	$13,387	$(78,536)	$4,771
Net cash provided by (used in) investing activities	377,556	265,245	(85,253)
Net cash provided by (used in) financing activities	(226,939)	53,733	38,051
Net increase (decrease) in cash, cash equivalents and restricted cash	164,004	240,442	(42,431)
Cash, cash equivalents and restricted cash at beginning of year	549,333	308,891	351,322
Cash, cash equivalents and restricted cash at end of year	$713,337	$549,333	$308,891

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 year ended December 31, 2018 compared to the year ended December 31, 2017 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.

The decrease in cash flows from operating activities in the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to lower net reinsurance receipts from our reinsurance operations.

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 redemptions from TP Fund after such change. The transfer of the net investment assets and liabilities to TP Fund, as described in Note 4 to our consolidated financial statements, had limited impact on our liquidity. Cash flows provided by investing activities for the years ended December 31, 2018 and 2017 primarily relates to net redemptions and the proceeds from the sale and maturity of certain investments used to fund cash flows from operations and share repurchases of $138.7 million and $40.9 million, respectively. Cash flows used in investing activities for the years ended December 31, 2016 primarily reflects the investment of float generated from our reinsurance operations, including the net proceeds from deposit liability contracts.

Financing Activities

Cash flows used in financing activities for the year ended December 31, 2018 consisted of $138.7 million for shares repurchased and $98.0 million of net withdrawals from total noncontrolling interests. Cash flows used in financing activities for the year ended December 31, 2017 consisted of $74.0 million of net contributions from total noncontrolling interests and contributions received on deposit liability contracts of $19.1 million, partially offset by $40.9 million for shares repurchased. Cash flows provided by financing activities for the year ended December 31, 2016 consisted of contributions received on deposit liability contracts and proceeds from the exercise of stock options, partially offset by $7.4 million of shares repurchased.

For the period from inception until December 31, 2018, we have had sufficient cash flow from the proceeds of our initial capitalization and IPO, the issuance of Notes in February 2015, and from our operations to meet our liquidity requirements. We expect that projected operating and capital expenditure requirements and debt service requirements for at least the next twelve months will be met by our balance of cash, cash flows generated from operating activities and investment income. We may incur additional indebtedness in the future if we determine that it would be an efficient part of our capital structure.

Cash, Restricted Cash and Cash Equivalents and Restricted Investments

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

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

Restricted cash and cash equivalents and restricted investments decreased by $18.8 million, or 2.2%, to $848.8 million as of December 31, 2018 from $867.6 million as of December 31, 2017. The decrease was primarily due to the issuance of letters of credit through our unsecured facility. In addition, we are now investing a portion of the collateral securing certain reinsurance contracts in U.S. treasury securities and sovereign debt. This portion of the collateral is included in debt securities in the consolidated balance sheets and is disclosed as part of restricted investments.

Letter of Credit Facilities

See Note 13 to our consolidated financial statements for additional information regarding our letter of credit facilities. As of December 31, 2018, $349.2 million (December 31, 2017 - $250.5 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 December 31, 2018.

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 December 31, 2018, total cash and cash equivalents with a fair value of $204.0 million (December 31, 2017 - $250.5 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 Note 4 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 December 31, 2018, total shareholders' equity was $1,204.6 million compared to $1,661.5 million as of December 31, 2017. The decrease was primarily due to a net loss available to Third Point Re common shareholders of $317.7 million and share repurchases of $138.7 million.

Investments

As of December 31, 2018, total cash and net investments managed by Third Point LLC was $2,134.1 million, compared to $2,589.9 million as of December 31, 2017. The decrease was primarily due to the net investment loss on net investments managed by Third Point LLC of $251.6 million and net redemptions of $197.6 million, primarily to fund share repurchases and cash flows from operations.

Contractual Obligations

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

The indenture governing the Senior Notes contains customary events of default, and limits our ability to merge or consolidate or to transfer or sell all or substantially all of our assets and TPRUSA's ability to create liens on the voting securities or profit participating equity interests of Third Point Re USA, its wholly-owned insurance subsidiary. In certain circumstances specified in the indenture governing the Senior Notes, certain of our existing or future subsidiaries may be required to guarantee the Senior Notes. Interest on the Notes is subject to adjustment from time to time in the event of a downgrade or subsequent upgrade of the rating assigned to the Senior Notes or in connection with certain changes in the ratio of consolidated total long-term indebtedness to capitalization (each as defined in the indenture governing the Senior Notes). As of December 31, 2018, we were in compliance with all of the covenants under the indenture governing the Senior Notes, and during the year then ended, no event requiring an increase in the interest rate applicable to the Senior Notes occurred.

Our contractual obligations as of December 31, 2018 by estimated maturity are presented below:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	($ in thousands)				
Senior Notes due 2025 (1)	$115,000	$—	$—	$—	$115,000
Scheduled interest payments (1)	52,325	8,050	16,100	16,100	12,075
Subtotal - Debt obligations	167,325	8,050	16,100	16,100	127,075
Loss and loss adjustment expense reserves (2)	937,157	202,189	301,310	224,925	208,733
Other operating agreements (3)	3,027	995	1,815	217	—
Rental leases (4)	2,049	935	1,075	39	—
Deposit liabilities (5)	145,342	13,198	30,088	33,941	68,115
	$1,254,900	$225,367	$350,388	$275,222	$403,923

(1) See Note 13 to our consolidated financial statements for detailed information on our Senior Notes.

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

(3) We have an undivided 31.25% interest in an aircraft with NetJets Sales Inc. (“NetJets”), which expires on August 31, 2021. The agreement with NetJets provides for monthly management fees, occupied hourly fees and other fees. We also have service agreements for information technology support services that expire on December 31, 2021 and December 31, 2023.

(4) We lease office space at Point House in Pembroke, Bermuda. This five year lease expires on November 30, 2020. We also lease office space in Jersey City, New Jersey, U.S.A. This three year lease expires on February 28, 2022.

(5) See Note 12 to our consolidated financial statements for detailed information on deposit liability contracts. For purposes of this contractual obligations table, we have included estimates of future interest accruals and the amount we expect the deposit liability contracts would settle for at their probable settlement dates.

Off-Balance Sheet Commitments and Arrangements

Prior to the change in our investment account structure, the derivatives in our investment portfolio were considered off-balance sheet arrangements. Refer to Note 4 and Note 8 for additional details. 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

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

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions. We believe that the accounting policies that require the most significant judgments and estimations by management are: (1) premium revenue recognition including evaluation of risk transfer, (2) loss and loss adjustment expense reserves, (3) fair value measurements related to our investments, and (4) consolidation of variable interest entities. If actual events differ significantly from the underlying judgments or estimates used by management in the application of these accounting policies, there could be a material adverse effect on our results of operations and financial condition.

Premium Revenue Recognition Including Evaluation of Risk Transfer

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

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

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

During the year ended December 31, 2018, we recorded $12.0 million of changes in premium estimates on prior years' contracts (2017 - $25.6 million and 2016 - $106.6 million). There was a $0.7 million impact on net income of these changes in premium estimates for the year ended December 31, 2018 (2017 - $(0.8) million and 2016 - $1.0 million).

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Property and Casualty Reinsurance” for additional information on changes in premium estimates.

Determining whether or not a reinsurance contract meets the condition for risk transfer requires judgment. The determination of risk transfer is critical to recognizing premiums written and is based, in part, on the use of actuarial pricing models and assumptions and evaluating contractual features that could impact the determination of whether a contract meets risk transfer. If we determine that a reinsurance contract does not transfer sufficient risk, we use deposit accounting. See Note 12 to our consolidated financial statements for additional information on deposit contracts entered into to date.

Loss and Loss Adjustment Expense Reserves

See Note 9 to our notes to consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information regarding loss and loss adjustment expense reserves including reserving methodologies and additional information on loss development.

Sensitivity Analysis

The table below shows the impact of reasonably likely changes to our actuarial estimates of our client’s ceded loss on the following: loss and loss adjustment expense reserves, net; acquisition costs, net; net underwriting loss and shareholders’ equity as of and for the year ended December 31, 2018. Since many contracts that we write have sliding scale commissions, profit commissions, loss corridors or other loss mitigating features that adjust with or offset the loss and loss adjustment expenses incurred, we consider these contractual features to be important in understanding the sensitivity of our results to changes in loss ratio assumptions.

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

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

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

	10% increase in ultimate loss and loss adjustment expenses, net	10% decrease in ultimate loss and loss adjustment expenses, net
	($ in thousands)	
Impact on:		
Loss and loss adjustment expense reserves, net	$134,538	$(157,892)
Acquisition costs, net	(4,484)	49,120
Increase (decrease) in net underwriting loss	130,054	(108,772)
Total shareholders' equity	$1,204,574	$1,204,574
Increase (decrease) in shareholders' equity	(10.8)%	9.0 %

Fair value measurements

See Note 5 to our consolidated financial statements for additional information on the framework for measuring fair value established by U.S. GAAP disclosure requirements. In addition to the framework discussed in Note 5, we perform several processes to ascertain the reasonableness of the valuation of all of our investments comprising our investment portfolio. These processes include (i) obtaining and reviewing weekly and monthly investment portfolio reports from Third Point LLC, (ii) obtaining and reviewing monthly NAV and investment return reports received directly from the Company's third-party fund administrator, which are compared to the reports noted in (i), and (iii) monthly update discussions with Third Point LLC regarding the investment portfolio, including, their process for reviewing and validating pricing obtained from third party service providers.

Consolidation of variable interest entities

The consolidated financial statements include the accounts of all subsidiaries in which we have a controlling interest and the accounts of variable interest entities ("VIEs") in which we are deemed to be the primary beneficiary. A VIE is an entity in which either (i) the equity investors as a group, if any, lack the power through voting or similar rights to direct the activities of such entity that most significantly impact such entity's economic performance or (ii) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support. We examine specific criteria and use judgment when determining if we are the primary beneficiary of a VIE. Factors considered in determining whether we are the primary beneficiary may include risk and reward sharing, experience and financial condition of other parties, voting rights, involvement in day-to-day capital and operating decisions, representation on a VIE's executive committee, existence of unilateral kick-out rights or voting rights, level of economic disproportionality between us and the other parties, and other factors. Our accounting policy relating to VIEs is a critical accounting policy because the determination of whether an entity is a VIE and, if so, whether we are primary beneficiary, may require us to exercise significant judgment.

Recent Accounting Pronouncements

Refer to Note 2 to our consolidated financial statements for the year ended December 31, 2018 included in Item 8 of this Annual Report on Form 10-K for details of recently issued accounting standards.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

Change in Investment Account Structure

As described in Note 4 to our consolidated financial statements, effective August 31, 2018, we transitioned from a separate account investment structure to an investment in the TP Fund, a related party investment fund. In addition, certain collateral assets held by Third Point Re BDA and Third Point Re USA will continue to be invested and managed by Third Point LLC. As a result of this transition, we remain exposed to many of the same market risks; however, these market risks are now risks associated with the investments underlying the TP Fund and no longer related to our direct holdings in the investments and securities.

For the information disclosed in relation to periods subsequent to the August 31, 2018 effective date of the investment structure changes, we have estimated the investment risks related to the investment portfolio within our investment in TP Fund based on information provided by the investment manager of TP Fund, Third Point LLC. For the comparative information disclosed for periods prior to August 31, 2018, the information relates to the investments and securities held in our separate accounts.

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 December 31, 2018, 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 December 31, 2018, a 10% decline in the value of all equity and equity-linked derivatives would result in a loss to the Company of $70.3 million, or 3.3% of total net investments. Computations of the prospective effects of hypothetical equity price changes are based on numerous assumptions, including the maintenance of the existing level and composition of investment securities and should not be relied on as indicative of future results.

Foreign Currency Risk

Reinsurance Contracts

We have foreign currency exposure related to non-U.S. dollar denominated reinsurance contracts. Of our gross premiums written from inception, $490.6 million, or 13.2%, were written in currencies other than the U.S. dollar. As of December 31, 2018, loss and loss adjustment expense reserves included $223.2 million (December 31, 2017 - $177.2 million) and net reinsurance balances receivable included $82.4 million (December 31, 2017 - $27.0 million) in foreign currencies. These foreign currency liability exposures were generally offset by foreign currencies held in trust accounts of $165.7 million as of December 31, 2018 (December 31, 2017 - $179.9 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 December 31, 2018, through our investment in TP Fund, the Company had total net short exposure to foreign denominated securities representing 11.9% of the Company's investment in the TP Fund, including cash and cash equivalents of $254.0 million. As of December 31, 2017, our total net short exposure to foreign denominated securities represented 26.2% of our investment portfolio including cash and cash equivalents, of $695.0 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 December 31, 2018:

	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	$26,751			