

Third Point Reinsurance Ltd.

Form 10-Q

July 31, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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.)

Point House

3 Waterloo Lane

Pembroke HM 08, Bermuda

+1 441 542-3300

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

Yes No

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

As of July 30, 2018, there were 99,627,399 common shares of the registrant's common shares issued and outstanding, including 2,050,115 restricted shares.

Third Point Reinsurance Ltd.

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PART I - Financial Information

ITEM 1. Financial Statements

THIRD POINT REINSURANCE LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of June 30, 2018 and December 31, 2017

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

| | June 30, 2018 | December 31, 2017 |
|---|------------------|----------------------|
| Assets | | |
| Equity securities, trading, at fair value (cost - \$2,065,215; 2017 - \$1,868,735) | \$2,427,768 | \$2,283,050 |
| Debt securities, trading, at fair value (cost - \$674,673; 2017 - \$711,322) | 617,913 | 675,158 |
| Other investments, at fair value | 52,444 | 37,731 |
| Total investments in securities | 3,098,125 | 2,995,939 |
| Cash and cash equivalents | 17,451 | 8,197 |
| Restricted cash and cash equivalents | 569,968 | 541,136 |
| Due from brokers | 258,764 | 305,093 |
| Derivative assets, at fair value | 34,738 | 73,372 |
| Interest and dividends receivable | 4,385 | 3,774 |
| Reinsurance balances receivable | 631,952 | 476,008 |
| Deferred acquisition costs, net | 264,408 | 258,793 |
| Unearned premiums ceded | 17,606 | 1,049 |
| Loss and loss adjustment expenses recoverable | 1,414 | 1,113 |
| Other assets | 10,808 | 7,320 |
| Total assets | \$4,909,619 | \$4,671,794 |
| Liabilities | | |
| Accounts payable and accrued expenses | \$12,044 | \$34,632 |
| Reinsurance balances payable | 74,013 | 41,614 |
| Deposit liabilities | 129,700 | 129,133 |
| Unearned premium reserves | 792,096 | 649,518 |
| Loss and loss adjustment expense reserves | 791,313 | 720,570 |
| Securities sold, not yet purchased, at fair value | 443,216 | 394,278 |
| Securities sold under an agreement to repurchase | — | 29,618 |
| Due to brokers | 926,588 | 770,205 |
| Derivative liabilities, at fair value | 12,380 | 14,503 |
| Performance fee payable to related party | 4,641 | — |
| Interest and dividends payable | 5,718 | 4,275 |
| Senior notes payable, net of deferred costs | 113,821 | 113,733 |
| Total liabilities | 3,305,530 | 2,902,079 |
| Commitments and contingent liabilities | | |
| Redeemable noncontrolling interests in related party | 7,179 | 108,219 |
| Shareholders' equity | | |
| Preference shares (par value \$0.10; authorized, 30,000,000; none issued) | — | — |
| Common shares (Issued: 2018 - 99,627,399; 2017 - 107,227,347; Outstanding: 2018 - 99,627,399; 2017 - 103,282,427) | 9,963 | 10,723 |
| Treasury shares (2018 - 0; 2017 - 3,944,920) | — | (48,253) |
| Additional paid-in capital | 994,170 | 1,099,599 |
| Retained earnings | 587,621 | 594,020 |
| Shareholders' equity attributable to Third Point Re common shareholders | 1,591,754 | 1,656,089 |
| Noncontrolling interests in related party | 5,156 | 5,407 |

| | | |
|--|-------------|-------------|
| Total shareholders' equity | 1,596,910 | 1,661,496 |
| Total liabilities, noncontrolling interests and shareholders' equity | \$4,909,619 | \$4,671,794 |

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

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THIRD POINT REINSURANCE LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

For the three and six months ended June 30, 2018 and 2017

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

| | Three months ended | | Six months ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Revenues | | | | |
| Gross premiums written | \$49,765 | \$ 156,564 | \$428,125 | \$ 302,918 |
| Gross premiums ceded | (3,479) | (1,425) | (18,125) | (2,550) |
| Net premiums written | 46,286 | 155,139 | 410,000 | 300,368 |
| Change in net unearned premium reserves | 95,207 | 18,419 | (126,021) | 11,199 |
| Net premiums earned | 141,493 | 173,558 | 283,979 | 311,567 |
| Net investment income before management and performance fees to related parties | 45,668 | 140,631 | 53,507 | 308,466 |
| Management and performance fees to related parties | (14,493) | (33,306) | (24,540) | (72,631) |
| Net investment income | 31,175 | 107,325 | 28,967 | 235,835 |
| Total revenues | 172,668 | 280,883 | 312,946 | 547,402 |
| Expenses | | | | |
| Loss and loss adjustment expenses incurred, net | 84,000 | 107,379 | 176,620 | 193,274 |
| Acquisition costs, net | 57,584 | 68,641 | 108,989 | 123,093 |
| General and administrative expenses | 9,696 | 15,014 | 19,177 | 25,586 |
| Other expenses | 3,983 | 2,105 | 7,978 | 5,006 |
| Interest expense | 2,051 | 2,051 | 4,080 | 4,077 |
| Foreign exchange (gains) losses | (8,847) | 4,781 | (2,236) | 4,796 |
| Total expenses | 148,467 | 199,971 | 314,608 | 355,832 |
| Income (loss) before income tax expense | 24,201 | 80,912 | (1,662) | 191,570 |
| Income tax expense | (4,390) | (5,307) | (4,518) | (10,605) |
| Net income (loss) | 19,811 | 75,605 | (6,180) | 180,965 |
| Net income attributable to noncontrolling interests in related party | (209) | (1,027) | (219) | (2,201) |
| Net income (loss) available to Third Point Re common shareholders | \$19,602 | \$ 74,578 | \$(6,399) | \$ 178,764 |
| Earnings (loss) per share available to Third Point Re common shareholders | | | | |
| Basic earnings (loss) per share available to Third Point Re common shareholders | \$0.20 | \$ 0.73 | \$(0.06) | \$ 1.73 |
| Diluted earnings (loss) per share available to Third Point Re common shareholders | \$0.19 | \$ 0.71 | \$(0.06) | \$ 1.70 |
| Weighted average number of common shares used in the determination of earnings (loss) per share | | | | |
| Basic | 99,498,901 | 102,283,844 | 100,342,636 | 103,144,078 |
| Diluted | 102,032,485 | 104,569,226 | 100,342,636 | 105,149,710 |

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

THIRD POINT REINSURANCE LTD.
 CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
 For the six months ended June 30, 2018 and 2017
 (expressed in thousands of U.S. dollars)

| | 2018 | 2017 |
|---|-------------|-------------|
| Common shares | | |
| Balance, beginning of period | \$10,723 | \$10,650 |
| Issuance of common shares, net | 67 | 83 |
| Common shares repurchased and retired | (827 |) — |
| Balance, end of period | 9,963 | 10,733 |
| Treasury shares | | |
| Balance, beginning of period | (48,253 |) (7,389 |
| Repurchase of common shares | — | (40,864 |
| Retirement of treasury shares | 48,253 | — |
| Balance, end of period | — | (48,253 |
| Additional paid-in capital | | |
| Balance, beginning of period | 1,099,599 | 1,094,568 |
| Issuance of common shares, net | (141 |) 915 |
| Share compensation expense | 2,558 | 3,374 |
| Common shares repurchased and retired | (107,846 |) — |
| Balance, end of period | 994,170 | 1,098,857 |
| Retained earnings | | |
| Balance, beginning of period | 594,020 | 316,222 |
| Net income (loss) | (6,180 |) 180,965 |
| Net income attributable to noncontrolling interests in related party | (219 |) (2,201 |
| Balance, end of period | 587,621 | 494,986 |
| Shareholders' equity attributable to Third Point Re common shareholders | 1,591,754 | 1,556,323 |
| Noncontrolling interests in related party | 5,156 | 19,809 |
| Total shareholders' equity | \$1,596,910 | \$1,576,132 |

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

THIRD POINT REINSURANCE LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
For the six months ended June 30, 2018 and 2017
(expressed in thousands of U.S. dollars)

| | 2018 | 2017 |
|--|--------------|--------------|
| Operating activities | | |
| Net income (loss) | \$(6,180) | \$180,965 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Share compensation expense | 2,558 | 3,374 |
| Net interest expense on deposit liabilities | 2,449 | 312 |
| Net unrealized (gain) loss on investments and derivatives | 95,513 | (128,168) |
| Net realized gain on investments and derivatives | (130,500) | (154,504) |
| Net foreign exchange (gains) losses | (2,236) | 4,796 |
| Amortization of premium and accretion of discount, net | 2,913 | (122) |
| Changes in assets and liabilities: | | |
| Reinsurance balances receivable | (157,498) | (85,733) |
| Deferred acquisition costs, net | (5,615) | 18,425 |
| Unearned premiums ceded | (16,557) | (1,938) |
| Loss and loss adjustment expenses recoverable | (301) | (1,712) |
| Other assets | (3,537) | 6,158 |
| Interest and dividends receivable, net | 832 | 2,953 |
| Unearned premium reserves | 142,578 | (9,261) |
| Loss and loss adjustment expense reserves | 74,655 | 63,769 |
| Accounts payable and accrued expenses | (22,564) | 7,549 |
| Reinsurance balances payable | 32,208 | 22,237 |
| Performance fee payable to related party | 4,641 | 53,455 |
| Net cash provided by (used in) operating activities | 13,359 | (17,445) |
| Investing activities | | |
| Purchases of investments | (2,180,138) | (1,712,929) |
| Proceeds from sales of investments | 2,156,754 | 1,966,027 |
| Purchases of investments to cover short sales | (590,113) | (306,237) |
| Proceeds from short sales of investments | 628,913 | 462,066 |
| Change in due to/from brokers, net | 202,712 | (261,994) |
| Decrease in securities sold under an agreement to repurchase | (29,618) | — |
| Net cash provided by investing activities | 188,510 | 146,933 |
| Financing activities | | |
| Proceeds from issuance of Third Point Re common shares, net of costs | — | 998 |
| Taxes paid on withholding shares | (74) | — |
| Purchases of Third Point Re common shares under share repurchase program | (60,420) | (40,864) |
| Decrease in deposit liabilities, net | (1,779) | (124) |
| Change in total noncontrolling interests in related party, net | (101,510) | (18,066) |
| Net cash used in financing activities | (163,783) | (58,056) |
| Net increase in cash, cash equivalents and restricted cash | 38,086 | 71,432 |
| Cash, cash equivalents and restricted cash at beginning of period | 549,333 | 308,891 |
| Cash, cash equivalents and restricted cash at end of period | \$587,419 | \$380,323 |
| Supplementary information | | |
| Interest paid in cash | \$13,939 | \$10,262 |
| Income taxes paid in cash | \$5,852 | \$4,954 |

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

Third Point Reinsurance Ltd.

Notes to the Condensed Consolidated Financial Statements (UNAUDITED)

(Expressed in United States Dollars)

1. Organization

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

Third Point Re USA is a Bermuda reinsurance company that was incorporated on November 21, 2014 and commenced operations in February 2015. Third Point Re USA made an election under Section 953(d) of the U.S. Internal Revenue Code of 1986, as amended, to be taxed as a U.S. entity. Third Point Re USA prices and underwrites U.S. domiciled reinsurance business from an office in the United States. Third Point Re USA is a wholly owned subsidiary of Third Point Re (USA) Holdings, Inc. (“TPRUSA”), an intermediate holding company based in the U.S., which is a wholly owned subsidiary of Third Point Re (UK) Holdings Ltd. (“Third Point Re UK”), an intermediate holding company based in the United Kingdom. Third Point Re UK is a wholly owned subsidiary of Third Point Re. In August 2012, the Company established a wholly-owned subsidiary in the United Kingdom, Third Point Re Marketing (UK) Limited (“TPRUK”). In May 2013, TPRUK was licensed as an insurance intermediary by the UK Financial Conduct Authority.

These unaudited condensed consolidated financial statements include the results of Third Point Re and its wholly owned subsidiaries (together, the “Company”) and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 in Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. This Quarterly Report should be read in conjunction with the audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 10-K”), as filed with the U.S. Securities and Exchange Commission on March 1, 2018.

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

The results for the six months ended June 30, 2018 are not necessarily indicative of the results expected for the full calendar year.

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

2. Significant accounting policies

There have been no material changes to the Company’s significant accounting policies as described in its 2017 10-K. Prior year changes in the presentation of condensed consolidated financial statements

The Company had previously included unearned premium ceded and loss and loss adjustment expenses recoverable in other assets in the condensed consolidated balance sheets and changes in these balances in the condensed consolidated statements of cash flows. These balances have grown and are now disclosed as separate line items in the condensed consolidated balance sheets and changes in these balances in the condensed consolidated statements of cash flows.

Recently issued accounting standards

Issued and effective as of June 30, 2018

In January 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). ASU 2016-01 is intended to provide users of financial statements with more useful information on the recognition, measurement, presentation and disclosure of financial instruments. The new standard affects all entities that hold financial assets or owe financial liabilities. ASU 2016-01 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. This new accounting standard did not have a material impact on the Company’s condensed consolidated financial statements since all of the Company’s investments are valued at fair market value as the Company’s investments are classified as “trading securities” and therefore the change in unrealized is included in the consolidated statement of income (loss).

In August 2016, the FASB issued Accounting Standards Update 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 is intended at reducing diversity in practice and addresses eight specific issues in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. To date, the Company has not entered into any of the eight types of transactions addressed in ASU 2016-15. As a result, the adoption of this standard did not have a material impact on the Company’s condensed consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18). ASU 2016-18 clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows, specifically, the Company should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and cash equivalents. An entity with a material balance of amounts generally described as restricted cash and cash equivalents must disclose information about the nature of the restrictions. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods therein. As a result of the adoption of ASU 2016-18, the Company retrospectively classified its restricted cash and cash equivalents within the condensed consolidated statement of cash flows and has included additional disclosures in accordance with ASU 2016-18 in its condensed consolidated financial statements. Prior to adoption, changes in restricted cash had been presented within cash flow from investing activities. Consequently, the condensed consolidated statement of cash flows for the six months ended June 30, 2017 includes adjustments to increase net cash used in investing activities by \$73.1 million.

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

Issued but not yet effective as of June 30, 2018

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

In July 2018, the FASB issued Accounting Standards Update 2018-10, Codification Improvements to Topic 842, Leases (ASU 2018-10). The update makes improvements to clarify or to correct unintended application of guidance in ASC 842. Those items generally are not expected to have a significant effect on the Company. ASU 2018-18 will be effective when the Company adopts ASU 2016-02 in 2019.

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

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

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

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

The following table provides a reconciliation of cash and cash equivalents, restricted cash and restricted investments as of June 30, 2018 and December 31, 2017:

| | June 30, 2018 | December 31, 2017 |
|--|------------------|----------------------|
| Cash and cash equivalents | \$ 17,451 | \$ 8,197 |
| Restricted cash securing letter of credit facilities (1) | 240,545 | 250,487 |
| Restricted cash securing other reinsurance contracts (2) | 329,423 | 290,649 |
| Total cash, cash equivalents and restricted cash (3) | 587,419 | 549,333 |
| Restricted investments securing other reinsurance contracts (2) | 310,205 | 326,429 |
| Total cash, cash equivalents, restricted cash and restricted investments | \$ 897,624 | \$ 875,762 |

Restricted cash securing letter of credit facilities primarily pertains to letters of credit issued to clients and cash securing these obligations that the Company will not be released until the underlying reserves have been settled.

(1) The time period for which the Company expects these letters of credit to be in place varies from contract to contract, but can last several years.

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

(3) Cash, cash equivalents and restricted cash as reported in the Company’s condensed consolidated statements of cash flows.

4. Investments

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

| | June 30, 2018 | December 31, 2017 |
|---|------------------|----------------------|
| Assets | | |
| Total investments in securities | \$3,097,918 | \$ 2,995,097 |
| Cash and cash equivalents | 43 | 8 |
| Restricted cash and cash equivalents | 569,968 | 541,136 |
| Due from brokers | 258,764 | 305,093 |
| Derivative assets, at fair value | 34,738 | 73,372 |
| Interest and dividends receivable | 4,385 | 3,774 |
| Total assets | 3,965,816 | 3,918,480 |
| Liabilities and noncontrolling interests in related party | | |
| Accounts payable and accrued expenses | 3,070 | 5,137 |
| Securities sold, not yet purchased | 443,216 | 394,278 |
| Securities sold under an agreement to repurchase | — | 29,618 |
| Due to brokers | 926,588 | 770,205 |
| Derivative liabilities, at fair value | 12,380 | 14,503 |
| Performance fee payable to related party | 4,641 | — |
| Interest and dividends payable | 2,696 | 1,218 |
| Total noncontrolling interests in related party ⁽¹⁾ | 12,335 | 113,626 |
| Total liabilities and noncontrolling interests in related party | 1,404,926 | 1,328,585 |
| Total net investments managed by Third Point LLC | \$2,560,890 | \$ 2,589,895 |

(1) See Note 17 for additional information.

Fair Value Measurements

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

Investments are carried at fair value. The fair values of investments are estimated using prices obtained from third-party pricing services, when available. However, situations may arise where the Company believes that the fair value provided by the third-party pricing service does not represent current market conditions. In those situations, Third Point LLC may use dealer quotes to value the investments. The methodology for valuation is generally determined based on the investment's asset class per the Company's Investment Manager's valuation policy. For investments where fair values from pricing services or brokers are unavailable, fair values are estimated using information obtained by the Company's Investment Manager.

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

Level 1 – Quoted prices available in active markets/exchanges for identical investments as of the reporting date.

Level 2 – Observable inputs to the valuation methodology other than unadjusted quoted market prices for identical assets or liabilities in active markets. Level 2 inputs include, but are not limited to, prices quoted for similar assets or liabilities in active markets/exchanges, prices quoted for identical or similar assets or liabilities in markets that are not active and fair values determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs unobservable for the investment and include activities where there is little, if any, market activity for the investment. The inputs applied in the determination of fair value require significant management judgment and estimation.

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

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

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

The key inputs for corporate, government and sovereign bond valuation are coupon frequency, coupon rate and underlying bond spreads. The key inputs for ABS are yield, probability of default, loss severity and prepayment. Key inputs for over-the-counter ("OTC") valuations vary based on the type of underlying security on which the contract was written:

The key inputs for most OTC option contracts include notional, strike price, maturity, payout structure, current foreign exchange forward and spot rates, current market price of the underlying security and volatility of the underlying security.

The key inputs for most forward contracts include notional, maturity, forward rate, spot rate, various interest rate curves and discount factor.

The key inputs for swap valuation will vary based on the type of underlying security on which the contract was written. Generally, the key inputs for most swap contracts include notional, swap period, fixed rate, credit or interest rate curves, current market or spot price of the underlying security and the volatility of the underlying security. Situations may arise when market quotations or valuations provided by external pricing vendors are available but the fair value may not represent current market conditions. In those cases, Third Point LLC may substitute valuations provided by external pricing vendors with multiple broker-dealer quotations.

Securities listed on a national securities exchange or quoted on NASDAQ are valued at their last sales price as of the last business day of the period. Listed securities with no reported sales on such date and OTC securities are valued at their last closing bid price if held long by the Company, and last closing ask price if held short by the Company. As of June 30, 2018, securities valued at \$158.2 million (December 31, 2017 - \$234.4 million), representing 5.1% (December 31, 2017 - 7.6%) of investments in securities and derivative assets, and \$2.1 million (December 31, 2017

- \$2.1 million), representing 0.5% (December 31, 2017 - 0.5%) of securities sold, not yet purchased and derivative liabilities, are valued based on broker quotes.

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

As of June 30, 2018, the Company had \$90.8 million (December 31, 2017 - \$83.4 million) of investments fair valued by the Company's Investment Manager representing approximately 2.9% (December 31, 2017 - 2.7%) of total investments in securities and derivative assets of which 98.3% were also separately valued by third party valuation firms using information obtained from the Company's Investment Manager. As a result of the inherent uncertainty of valuation for private securities, the estimated fair value may differ materially from the value that would have been used had a ready market existed for these investments. The actual value at which these securities could be sold or settled with a willing buyer or seller may differ from the Company's estimated fair values depending on a number of factors including, but not limited to, current and future economic conditions, the quantity sold or settled, the presence of an active market and the availability of a willing buyer or seller.

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

The Company values its investments in limited partnerships at fair value, which is estimated based on the Company's share of the net asset value ("NAV") of the limited partnerships as provided by the investment managers of the underlying investment funds. The resulting net gains or net losses are reflected in the condensed consolidated statements of income (loss). These investments are included in investment in funds valued at NAV and excluded from the presentation of investments categorized by the level of the fair value hierarchy. These investments are non-redeemable and distributions are made by the investment funds as underlying investments are monetized.

As of June 30, 2018 and December 31, 2017, the Company's asset-backed securities ("ABS") holdings were as follows:

| | June 30, 2018 | | | December 31, 2017 | | |
|--------------------|---------------|---------|--|-------------------|---------|--|
| Reperforming loans | \$109,117 | 60.4 % | | \$160,354 | 71.1 % | |
| Market place loans | 60,664 | 33.6 % | | 52,584 | 23.3 % | |
| Other (1) | 10,990 | 6.0 % | | 12,561 | 5.6 % | |
| | \$180,771 | 100.0 % | | \$225,499 | 100.0 % | |

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

As of June 30, 2018, all of the Company's ABS holdings were private-label issued, non-investment grade securities, and none of these securities were guaranteed by a government sponsored entity. These investments are valued using broker quotes or a recognized third-party pricing vendor. All of these classes of ABS are sensitive to changes in interest rates and any resulting change in the rate at which borrowers sell their properties, refinance, or otherwise pre-pay their loans. As an investor in these classes of ABS, the Company may be exposed to the credit risk of underlying borrowers not being able to make timely payments on loans or the likelihood of borrowers defaulting on their loans. In addition, the Company may be exposed to significant market and liquidity risks.

The following tables present the Company's investments, categorized by the level of the fair value hierarchy as of June 30, 2018 and December 31, 2017:

| | June 30, 2018 | | | |
|--|---|---|--|-------------|
| | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| Assets | | | | |
| Equity securities | \$2,360,825 | \$ 5,812 | \$ — | \$2,366,637 |
| Private common equity securities | — | — | 4,362 | 4,362 |
| Private preferred equity securities | — | — | 56,769 | 56,769 |
| Total equities | 2,360,825 | 5,812 | 61,131 | 2,427,768 |
| Asset-backed securities | — | 152,632 | 28,139 | 180,771 |
| Bank debt | — | 22,566 | — | 22,566 |
| Corporate bonds | — | 43,207 | 9,968 | 53,175 |
| Municipal bonds | — | 40,432 | — | 40,432 |
| U.S. Treasury securities | — | 236,600 | — | 236,600 |
| Sovereign debt | — | 83,244 | — | 83,244 |
| Other debt securities | — | 1,125 | — | 1,125 |
| Total debt securities | — | 579,806 | 38,107 | 617,913 |
| Options | 962 | 8,443 | — | 9,405 |
| Rights and warrants | 214 | 1 | 424 | 639 |
| Real estate | — | — | 7,351 | 7,351 |
| Trade claims | — | 3,068 | — | 3,068 |
| Total other investments | 1,176 | 11,512 | 7,775 | 20,463 |
| Derivative assets (free standing) | — | 27,852 | 6,886 | 34,738 |
| | \$2,362,001 | \$ 624,982 | \$ 113,899 | 3,100,882 |
| Investments in funds valued at NAV | | | | 31,981 |
| Total assets | | | | \$3,132,863 |
| Liabilities | | | | |
| Equity securities | \$417,577 | \$ — | \$ — | \$417,577 |
| Corporate bonds | — | 20,181 | — | 20,181 |
| Options | 1,396 | 4,062 | — | 5,458 |
| Total securities sold, not yet purchased | 418,973 | 24,243 | — | 443,216 |
| Derivative liabilities (free standing) | — | 10,541 | 1,839 | 12,380 |
| Derivative liabilities (embedded) | — | — | 164 | 164 |
| Total liabilities | \$418,973 | \$ 34,784 | \$ 2,003 | \$455,760 |

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

During the six months ended June 30, 2018, the Company made \$0.2m (December 31, 2017 - \$nil) of reclassifications of assets or liabilities between Levels 1 and 2.

The total change in unrealized gains (losses) on equity and debt securities held at the three months ended June 30, 2018 were \$2.9 million and \$(17.7) million, respectively (2017 - \$71.2 million and \$(10.8) million, respectively). The total change in unrealized gains (losses) on equity and debt securities held at the six months ended June 30, 2018 were \$(21.0) million and \$(18.4) million, respectively (2017 - \$176.3 million and \$(9.1) million, respectively).

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The following table presents the reconciliation of all investments measured at fair value using Level 3 inputs for the three and six months ended June 30, 2018 and 2017:

| | April 1, 2018 | Transfers in to (out of) Level 3 | Purchases | Sales | Realized and Unrealized Gains (Losses) (1) | June 30, 2018 |
|--|-------------------|---|------------------|-------------------|---|-------------------|
| Assets | | | | | | |
| Private common equity securities | \$4,352 | \$— | \$ 21 | \$— | \$ (11) | \$4,362 |
| Private preferred equity securities | 55,231 | — | 2,350 | (977) | 165 | 56,769 |
| Asset-backed securities | 27,256 | 3,622 | 18,350 | (21,188) | 99 | 28,139 |
| Corporate bonds | 10,081 | — | 512 | (817) | 192 | 9,968 |
| Rights and warrants | 819 | (1) | — | (388) | (6) | 424 |
| Real estate | 6,937 | — | — | — | 414 | 7,351 |
| Derivative assets (free standing) | — | 8,397 | — | 390 | (1,901) | 6,886 |
| Total assets | \$104,676 | \$12,018 | \$ 21,233 | \$(22,980) | \$(1,048) | \$113,899 |
| Liabilities | | | | | | |
| Derivative liabilities (free standing) | \$(1,996) | \$10 | \$— | \$— | \$ 147 | \$(1,839) |
| Derivative liabilities (embedded) | (124) | — | — | — | (40) | (164) |
| Total liabilities | \$(2,120) | \$10 | \$— | \$— | \$ 107 | \$(2,003) |

| | January 1, 2018 | Transfers in to (out of) Level 3 | Purchases | Sales | Realized and Unrealized Gains (Losses) (1) | June 30, 2018 |
|--|--------------------|---|------------------|-------------------|---|-------------------|
| Assets | | | | | | |
| Private common equity securities | \$4,794 | \$— | \$ 22 | \$— | \$ (454) | \$4,362 |
| Private preferred equity securities | 57,126 | — | 2,509 | (992) | (1,874) | 56,769 |
| Asset-backed securities | 27,308 | 6,104 | 30,610 | (35,522) | (361) | 28,139 |
| Corporate bonds | 9,868 | — | 532 | (817) | 385 | 9,968 |
| Other debt securities | 713 | — | — | (913) | 200 | — |
| Rights and warrants | 435 | (1) | 582 | (593) | 1 | 424 |
| Real estate | 6,831 | — | — | (153) | 673 | 7,351 |
| Derivative assets (free standing) | — | 7,701 | — | 1,499 | (2,314) | 6,886 |
| Total assets | \$107,075 | \$13,804 | \$ 34,255 | \$(37,491) | \$(3,744) | \$113,899 |
| Liabilities | | | | | | |
| Derivative liabilities (free standing) | \$(2,085) | \$13 | \$— | \$— | \$ 233 | \$(1,839) |
| Derivative liabilities (embedded) | (171) | — | — | — | 7 | (164) |
| Total liabilities | \$(2,256) | \$13 | \$— | \$— | \$ 240 | \$(2,003) |

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| | April 1, 2017 | Transfers in to (out of) Level 3 | Purchases | Sales | Realized and Unrealized Gains (Losses) (1) | June 30, 2017 |
|--|-------------------|---|-----------------|-------------------|---|-------------------|
| Assets | | | | | | |
| Private common equity securities | \$4,745 | \$— | \$— | \$— | \$ 30 | \$4,775 |
| Private preferred equity securities | 48,350 | — | 939 | (123) | 1,593 | 50,759 |
| Asset-backed securities | 20,785 | 15,642 | 22,038 | (20,545) | (2,209) | 35,711 |
| Bank debt | 8,722 | (189) | 3 | (23) | 1,733 | 10,246 |
| Corporate bonds | 8,984 | — | 92 | (320) | 339 | 9,095 |
| Other debt securities | — | — | 3,312 | — | — | 3,312 |
| Total assets | \$91,586 | \$15,453 | \$26,384 | \$(21,011) | \$1,486 | \$113,898 |
| Liabilities | | | | | | |
| Derivative liabilities (free standing) | \$(1,326) | \$— | \$— | \$(41) | \$— | \$(1,367) |
| Derivative liabilities (embedded) | (111) | — | — | — | (69) | (180) |
| Total liabilities | \$(1,437) | \$— | \$— | \$(41) | \$(69) | \$(1,547) |

| | January 1, 2017 | Transfers in to (out of) Level 3 | Purchases | Sales | Realized and Unrealized Gains (Losses) (1) | June 30, 2017 |
|--|--------------------|---|-----------------|-------------------|--|-------------------|
| Assets | | | | | | |
| Private common equity securities | \$4,799 | \$— | \$— | \$— | \$(24) | \$4,775 |
| Private preferred equity securities | 48,834 | — | 939 | (495) | 1,481 | 50,759 |
| Asset-backed securities | 17,628 | 20,016 | 31,958 | (32,237) | (1,654) | 35,711 |
| Bank debt | 8,350 | (446) | 4 | (272) | 2,610 | 10,246 |
| Corporate bonds | 9,255 | — | 93 | (587) | 334 | 9,095 |
| Other debt securities | — | — | 3,312 | — | — | 3,312 |
| Total assets | \$88,866 | \$19,570 | \$36,306 | \$(33,591) | \$2,747 | \$113,898 |
| Liabilities | | | | | | |
| Derivative liabilities (free standing) | \$(1,326) | \$— | \$— | \$(41) | \$— | \$(1,367) |
| Derivative liabilities (embedded) | (92) | — | — | — | (88) | (180) |
| Total liabilities | \$(1,418) | \$— | \$— | \$(41) | \$(88) | \$(1,547) |

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

Total change in unrealized gains (losses) on fair value of assets using significant unobservable inputs (Level 3) held at the three and six months ended June 30, 2018 were \$(2.9) million and \$(6.9) million, respectively (2017 - \$1.9 million and \$0.6 million, respectively).

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

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

June 30, 2018

| Assets | Fair value | Valuation technique | Unobservable input | Range |
|----------------------------|------------|----------------------|---------------------|---------------|
| Private equity investments | \$4,969 | Market approach | Volatility | 40.0% - 45.0% |
| | | | Multiple | 6.5 - 10.0x |
| Real estate | 7,054 | Discounted cash flow | Discount rate | 9.5 % |
| | | | Capitalization rate | 6.5 % |
| Rights and warrants | 424 | Discounted cash flow | Discount rate | 15.5 % |
| | | | Time to exit | 5.0 years |
| | | | Market approach | Multiple |

December 31, 2017

| Assets | Fair value | Valuation technique | Unobservable input | Range |
|----------------------------|------------|----------------------|---------------------|-----------------|
| Private equity investments | \$37,507 | Market approach | Volatility | 35.0% - 65.0% |
| | | | Time to exit | 0.5 - 1.8 years |
| | | | Multiple | 7.8 - 24.4x |
| Real estate | 6,831 | Discounted cash flow | Discount rate | 9.5 % |
| | | | Capitalization rate | 6.5% - 10.0% |
| Other debt securities | 713 | Discounted cash flow | Capitalization rate | 10.0 % |
| Rights and warrants | 433 | Discounted cash flow | Discount rate | 13.5 % |
| | | | Time to exit | 5.0 years |
| | | | Market approach | Multiple |

Private equity investments

The Company measures the fair value of these investments using a market approach which typically utilizes guideline comparable company trading multiples and/or a discounted cash flow analysis. Under the guideline comparable company multiples approach, the Company determines comparable public companies based on industry, size, developmental stage, strategy, etc., and then calculates a trading multiple for each comparable company. The trading multiple may then be discounted for various considerations as appropriate. The concluded multiple is then applied to the subject company to calculate the value of the subject company. The discounted cash flow model involves using the financial information of the portfolio companies to develop revenue and income projections for the subject company for future years based on information on growth rates relative to the company's development stage. The enterprise value of the subject company is calculated by discounting the projected cash flows and the terminal value to net present value. The fair value of the company's debt is reduced from the enterprise value to determine the equity value.

Real estate and other debt securities

The values of the investments are based upon available information concerning the market for real estate property investments and the underlying assets of the other debt investments. The valuation methods include, but are not limited to the following: (1) forecasts of future net cash flows based on the Investment Manager's analysis of future earnings from the investment plus anticipated net proceeds from the sale, disposition or resolution of the investment; (2) discounted earnings multiples applied to stabilized income or adjusted earnings from the investment; (3) recent sales of comparable investments.

Rights and warrants

The values of the investments are based on the valuation techniques discussed in private equity investments above as they relate to the same underlying securities.

For the six months ended June 30, 2018 and 2017, there were no changes in the valuation techniques as they relate to the above.

5. Due from/to brokers

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

As of June 30, 2018 and December 31, 2017, the Company's due from/to brokers were comprised of the following:

| | June 30, 2018 | December 31, 2017 |
|--------------------------------------|------------------|----------------------|
| Due from brokers | | |
| Cash held at brokers | \$247,145 | \$ 295,467 |
| Receivable from unsettled trades (1) | 11,619 | 9,626 |
| | \$258,764 | \$ 305,093 |
| Due to brokers | | |
| Borrowing from prime brokers | \$862,774 | \$ 759,267 |
| Payable from unsettled trades | 63,814 | 10,938 |
| | \$926,588 | \$ 770,205 |

(1) Receivables relating to securities sold by the Company are recorded as receivable from unsettled trades in due from brokers in the Company's condensed consolidated balance sheets.

Due from/to brokers include cash balances maintained with the Company's prime brokers, receivables and payables from unsettled trades and proceeds from securities sold, not yet purchased. In addition, due from/to brokers includes cash collateral received and posted from OTC and repurchase agreement counterparties. As of June 30, 2018, the Company's borrowing from prime brokers includes a total non-U.S. currency balance of \$100.3 million (December 31, 2017 - \$70.1 million).

The Company uses prime brokerage borrowing arrangements to provide collateral for its letter of credit facilities and to fund trust accounts securing certain reinsurance contracts. As of June 30, 2018, the Company had \$880.2 million (December 31, 2017 - \$867.6 million) of restricted cash and investments securing letter of credit facilities and certain reinsurance contracts. Margin debt balances were collateralized by cash held by the broker and certain of the Company's securities. Margin interest was paid either at the daily broker call rate or based on London Inter-bank Offered Rate. Amounts are borrowed through committed facilities with terms of up to 90 days, secured by assets of the Company held by the prime broker, and incur interest based on the Company's negotiated rates. This interest expense is reflected in net investment income in the condensed consolidated statements of income (loss).

6. Derivatives

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

| | As of June 30, 2018 | | |
|--|-------------------------|------------|----------------------|
| | Listing currency (1) | Fair Value | Notional Amounts (2) |
| Derivative Assets by Primary Underlying Risk | | | |
| Credit | | | |
| Credit Default Swaps - Protection Purchased | EUR/USD | \$7,426 | \$72,960 |
| Total Return Swaps - Long Contracts | EGP | 6,681 | 6,681 |
| Equity Price | | | |
| Contracts for Differences - Long Contracts | BRL/EUR/USD | 9,641 | 104,549 |
| Contracts for Differences - Short Contracts | CHF/EUR/JPY | 3,062 | 19,382 |
| Interest Rates | | | |
| Interest Rate Swaptions | JPY/USD | 452 | 488,780 |
| Foreign Currency Exchange Rates | | | |
| Foreign Currency Forward Contracts | BRL/CHF/CNH/EUR/HKD/JPY | 6,386 | 613,867 |
| Foreign Currency Options - Purchased | USD | 1,090 | 69,438 |
| Total Derivative Assets | | \$34,738 | \$1,375,657 |

| | Listing currency (1) | Fair Value | Notional Amounts (2) |
|--|-------------------------|------------|----------------------|
| Derivative Liabilities by Primary Underlying Risk | | | |
| Credit | | | |
| Credit Default Swaps - Protection Purchased | USD | \$95 | \$17,004 |
| Credit Default Swaps - Protection Sold | USD | 2,147 | 5,003 |
| Equity Price | | | |
| Contracts for Differences - Long Contracts | BRL/EUR/GBP | 3,726 | 79,109 |
| Contracts for Differences - Short Contracts | CHF/EUR/GBP/JPY/SEK/USD | 1,528 | 58,391 |
| Interest Rates | | | |
| Interest Rate Swaptions | JPY/USD | 89 | 488,417 |
| Sovereign Debt Futures - Short Contracts | EUR | 644 | 106,600 |
| Total Return Swaps - Long Contracts | ARS | 3,277 | 19,175 |
| Foreign Currency Exchange Rates | | | |
| Foreign Currency Forward Contracts | ARS/HKD/SAR | 347 | 221,008 |
| Foreign Currency Options - Sold | USD | 527 | 107,312 |
| Total Derivative Liabilities (free standing) | | \$12,380 | \$1,102,019 |
| Embedded derivative liabilities in reinsurance contracts (3) | USD | \$164 | \$20,000 |
| Total Derivative Liabilities (embedded) | | \$164 | \$20,000 |

ARS = Argentine peso, BRL = Brazilian Real, CHF = Swiss Franc, CNH = Chinese Yuan, EGP = Egyptian Pound, (1)EUR = Euro, HKD = Hong Kong Dollar, GBP = British Pound, JPY = Japanese Yen, SAR = Saudi Arabian Riyal, SEK = Swedish Krona, USD = US Dollar.

(2) The absolute notional exposure represents the Company's derivative activity as of June 30, 2018, which is representative of the volume of derivatives held during the period.

(3)

The fair value of embedded derivatives in reinsurance contracts is included in reinsurance balances payable in the condensed consolidated balance sheets.

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As of December 31, 2017

| | Listing currency (1) | Fair Value | Notional Amounts (2) |
|---|-----------------------|-----------------|----------------------|
| Derivative Assets by Primary Underlying Risk | | | |
| Credit | | | |
| Credit Default Swaps - Protection Purchased | USD | \$8,205 | \$50,593 |
| Total Return Swaps - Long Contracts | EGP | 25,245 | 25,245 |
| Equity Price | | | |
| Contracts for Differences - Long Contracts | BRL / CHF / EUR / USD | 17,298 | 163,868 |
| Contracts for Differences - Short Contracts | DKK / NOK / SEK / USD | 4,384 | 31,992 |
| Total Return Swaps - Long Contracts | BRL / USD | 15,936 | 96,388 |
| Total Return Swaps - Short Contracts | USD | 1 | — |
| Interest Rates | | | |
| Interest Rate Swaptions | JPY | 539 | 64,950 |
| Foreign Currency Exchange Rates | | | |
| Foreign Currency Forward Contracts | HKD / JPY | 1,764 | 511,937 |
| Total Derivative Assets | | \$73,372 | \$944,973 |

| | Listing currency (1) | Fair Value | Notional Amounts (2) |
|--|-----------------------------------|-----------------|----------------------|
| Derivative Liabilities by Primary Underlying Risk | | | |
| Credit | | | |
| Credit Default Swaps - Protection Purchased | USD | \$1,250 | \$19,418 |
| Credit Default Swaps - Protection Sold | USD | 2,085 | 2,351 |
| Equity Price | | | |
| Contracts for Differences - Long Contracts | BRL / EUR / USD | 2,200 | 93,200 |
| Contracts for Differences - Short Contracts | DKK / EUR / USD | 776 | 8,483 |
| Total Return Swaps - Long Contracts | BRL / USD | 73 | 50,858 |
| Total Return Swaps - Short Contracts | USD | 1,885 | 52,657 |
| Interest Rates | | | |
| Interest Rate Swaptions | JPY | 70 | 64,482 |
| Foreign Currency Exchange Rates | | | |
| Foreign Currency Forward Contracts | BRL / CHF / CNH / EUR / HKD / SAR | 6,164 | 573,498 |
| Total Derivative Liabilities (free standing) | | \$14,503 | \$864,947 |
| Embedded derivative liabilities in reinsurance contracts (3) | USD | \$171 | \$20,000 |
| Total Derivative Liabilities (embedded) | | \$171 | \$20,000 |

(1) BRL = Brazilian Real, CHF = Swiss Franc, CNH = Chinese Yuan, DKK = Danish Krone, EGP = Egyptian Pound, EUR = Euro, HKD = Hong Kong Dollar, JPY = Japanese Yen, NOK = Norwegian Krone, SAR = Saudi Arabian Riyal, SEK = Swedish Krona, USD = US Dollar.

(2) The absolute notional exposure represents the Company's derivative activity as of December 31, 2017, which is representative of the volume of derivatives held during the period.

(3) The fair value of embedded derivatives in reinsurance contracts is included in reinsurance balances payable in the condensed consolidated balance sheets.

The following table sets forth, by major risk type, the Company's realized and unrealized gains (losses) relating to derivatives for the three and six months ended June 30, 2018 and 2017. Realized and unrealized gains (losses) related to free standing derivatives are included in net investment income in the condensed consolidated statements of income (loss). Realized and unrealized gains (losses) related to embedded derivatives are included in other expenses in the condensed consolidated statements of income (loss).

| Free standing Derivatives - Primary Underlying Risk | Three months ended | | | |
|---|----------------------------|-------------------------------|----------------------------|-------------------------------|
| | June 30, 2018 | | June 30, 2017 | |
| | Realized Gain (Loss) | Unrealized Gain (Loss)* | Realized Gain (Loss) | Unrealized Gain (Loss)* |
| Credit | | | | |
| Credit Default Swaps - Protection Purchased | \$ 130 | \$ (2,581) | \$ (1,137) | \$ (1,590) |
| Credit Default Swaps - Protection Sold | (718) | 1,053 | 18 | (35) |
| Total Return Swaps - Long Contracts | 1,377 | (1,981) | (29) | (37) |
| Equity Price | | | | |
| Contracts for Differences - Long Contracts | 11,107 | (606) | 39,055 | 1,211 |
| Contracts for Differences - Short Contracts | 1,650 | (1,994) | (993) | 1,821 |
| Total Return Swaps - Long Contracts | (1,632) | (787) | 61 | 3,545 |
| Total Return Swaps - Short Contracts | (9,517) | 118 | (1,014) | 1,201 |
| Interest Rates | | | | |
| Interest Rate Swaps | — | — | (4,550) | (2,105) |
| Interest Rate Swaptions | — | (180) | (720) | (573) |
| Sovereign Future Options - Long Contracts | 403 | — | — | — |
| Sovereign Future Options - Short Contracts | 50 | — | — | — |
| Sovereign Futures - Long Contracts | 639 | — | — | — |
| Sovereign Debt Futures - Short Contracts | (560) | (620) | (6,874) | (106) |
| Total Return Swaps - Long Contracts | — | (3,277) | — | — |
| Foreign Currency Exchange Rates | | | | |
| Foreign Currency Forward Contracts | 4,182 | 7,776 | (4,161) | (2,653) |
| Foreign Currency Future Options - Purchased | (108) | — | — | — |
| Foreign Currency Options - Purchased | 4,571 | 1,045 | (1,318) | 661 |
| Foreign Currency Options - Sold | (485) | (375) | (1) | — |
| | \$ 11,089 | \$ (2,409) | \$ 18,337 | \$ 1,340 |
| Embedded Derivatives | | | | |
| Embedded derivatives in reinsurance contracts | \$— | \$ (40) | \$— | \$ (69) |
| Total Derivative Liabilities (embedded) | \$— | \$ (40) | \$— | \$ (69) |

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| | Six months ended | | | |
|---|------------------|-------------|---------------|------------|
| | June 30, 2018 | | June 30, 2017 | |
| | Realized | Unrealized | Realized | Unrealized |
| Free standing Derivatives - Primary Underlying Risk | Gain | Gain | Gain | Gain |
| | (Loss) | (Loss)* | (Loss) | (Loss)* |
| Credit | | | | |
| Credit Default Swaps - Protection Purchased | \$(1,118) | \$(2,022) | \$(2,465) | \$ 30 |
| Credit Default Swaps - Protection Sold | 130 | 292 | 37 | (59) |
| Total Return Swaps - Long Contracts | 1,819 | (1,176) | (29) | (37) |
| Equity Price | | | | |
| Contracts for Differences - Long Contracts | 25,307 | (9,184) | 46,925 | 6,687 |
| Contracts for Differences - Short Contracts | 5,710 | (2,075) | (4,205) | 2,945 |
| Total Return Swaps - Long Contracts | 17,559 | (15,864) | 3,862 | 8,547 |
| Total Return Swaps - Short Contracts | (16,373) | 1,883 | (3,743) | 788 |
| Interest Rates | | | | |
| Interest Rate Swaps | — | — | (3,097) | (1,740) |
| Interest Rate Swaptions | — | (401) | 522 | (2,342) |
| Sovereign Future Options - Long Contracts | 403 | — | — | — |
| Sovereign Future Options - Short Contracts | 50 | — | — | — |
| Sovereign Futures - Long Contracts | 639 | — | — | — |
| Sovereign Debt Futures - Short Contracts | (561) | (644) | (8,656) | 658 |
| Total Return Swaps - Long Contracts | — | (3,277) | — | — |
| Foreign Currency Exchange Rates | | | | |
| Foreign Currency Forward Contracts | (9,634) | 10,441 | (10,035) | (1,268) |
| Foreign Currency Future Options - Purchased | (108) | — | — | — |
| Foreign Currency Options - Purchased | 4,571 | 469 | (6,187) | 1,163 |
| Foreign Currency Options - Sold | (485) | (292) | 2,184 | (80) |
| | \$27,909 | \$(21,850) | \$15,113 | \$15,292 |
| Embedded Derivatives | | | | |
| Embedded derivatives in reinsurance contracts | \$— | \$7 | \$— | \$(88) |
| Total Derivative Liabilities (embedded) | \$— | \$7 | \$— | \$(88) |

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

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

The Company obtains/provides collateral from/to various counterparties for OTC derivative and futures contracts in accordance with bilateral collateral agreements. During the period ended June 30, 2018, no termination events were triggered under the ISDA Master Agreements. As of June 30, 2018, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position was \$3.1 million (December 31, 2017 - \$3.6 million) for which the Company posted collateral in the form of cash of \$59.1 million (December 31, 2017 - \$103.0 million) in the normal course of business. Similarly, the Company held collateral (approximately \$2.2 million) in cash from certain counterparties as of June 30, 2018. If the credit-risk-related contingent features underlying these instruments had been triggered as of June 30, 2018 and the Company had to settle these instruments immediately, no additional amounts would be required to be posted that would exceed the settlement amounts of open derivative contracts or in the case of cross margining relationships, the assets in the Company's prime brokerage accounts are sufficient to offset the derivative liabilities.

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

The Company has pledged cash collateral to counterparties to support the current value of amounts due to the counterparties based on the value of the underlying security. As of June 30, 2018 and December 31, 2017, the gross and net amounts of derivative instruments and repurchase and reverse repurchase agreements that are subject to enforceable master netting arrangements or similar agreements were as follows:

| June 30, 2018 Derivative Contracts | Gross Amounts not Offset in the Condensed Consolidated Balance Sheet | | | |
|---|---|--------------------------|--------------------------------|---------------|
| | Gross Amount (1) | Financial Instruments | Cash Collateral Received | Net Amount |
| Financial assets, derivative assets and collateral received | | | | |
| Counterparty 1 | \$190 | \$ 190 | \$ — | \$— |
| Counterparty 2 | 1,197 | 1,197 | — | — |
| Counterparty 3 | 17,207 | 4,303 | — | 12,904 |
| Counterparty 4 | 2,926 | 2,889 | — | 37 |
| Counterparty 5 | 6,477 | 1,345 | 40 | 5,092 |
| Counterparty 6 | 3,713 | 33 | 1,314 | 2,366 |
| Counterparty 7 | 1,059 | — | 850 | 209 |
| Counterparty 8 | 8,233 | 1,222 | — | 7,011 |
| Counterparty 9 | 2,180 | 2,180 | — | — |
| | \$43,182 | \$ 13,359 | \$ 2,204 | \$27,619 |

| June 30, 2018 Derivative Contracts | Gross Amounts not Offset in the Condensed Consolidated Balance Sheet | | | |
|--|---|--------------------------|-------------------------------|---------------|
| | Gross Amount (2) | Financial Instruments | Cash Collateral Pledged | Net Amount |
| Financial liabilities, derivative liabilities and collateral pledged | | | | |
| Counterparty 1 | \$539 | \$ 190 | \$ 349 | \$— |
| Counterparty 2 | 1,482 | 1,197 | 285 | — |
| Counterparty 3 | 4,303 | 4,303 | — | — |
| Counterparty 4 | 3,000 | 2,889 | 111 | — |
| Counterparty 5 | 1,345 | 1,345 | — | — |
| Counterparty 6 | 33 | 33 | — | — |
| Counterparty 8 | 1,222 | 1,222 | — | — |
| Counterparty 9 | 4,520 | 2,180 | 2,340 | — |
| | \$16,444 | \$ 13,359 | \$ 3,085 | \$— |

Securities lending transactions

| | | | | |
|----------------|---------|----------|------|-----|
| Counterparty 5 | \$7,341 | \$ 7,341 | \$ — | \$— |
| | \$7,341 | \$ 7,341 | \$ — | \$— |

The gross amounts of assets presented in the condensed consolidated balance sheets presented above includes the (1) fair value of derivative contract assets as well as gross OTC option contract assets of \$8.5 million included in other investments in the condensed consolidated balance sheets.

The gross amounts of liabilities presented in the condensed consolidated balance sheets presented above includes (2) the fair value of derivative contract liabilities as well as gross OTC option contract liabilities of \$4.1 million included in securities sold, not yet purchased in the condensed consolidated balance sheets.

| December 31, 2017 | Gross Amounts not Offset in the Condensed Consolidated Balance Sheet | | | |
|---|---|--------------------------|--------------------------------|---------------|
| | Gross Amount (1) | Financial Instruments | Cash Collateral Received | Net Amount |
| Derivative Contracts | | | | |
| Financial assets, derivative assets and collateral received | | | | |
| Counterparty 1 | \$167 | \$ 167 | \$ — | \$— |
| Counterparty 2 | 1,343 | 706 | — | 637 |
| Counterparty 3 | 37,313 | 2,705 | — | 34,608 |
| Counterparty 4 | 2,683 | 2,683 | — | — |
| Counterparty 5 | 14,798 | 6,647 | — | 8,151 |
| Counterparty 6 | 5,338 | 9 | 2,122 | 3,207 |
| Counterparty 7 | 1,377 | — | 1,100 | 277 |
| Counterparty 8 | 12,628 | 2,963 | — | 9,665 |
| Counterparty 9 | 703 | 703 | — | — |
| | \$76,350 | \$ 16,583 | \$ 3,222 | \$ 56,545 |

| December 31, 2017 | Gross Amounts not Offset in the Condensed Consolidated Balance Sheet | | | |
|--|---|--------------------------|-------------------------------|---------------|
| | Gross Amount (2) | Financial Instruments | Cash Collateral Pledged | Net Amount |
| Derivative Contracts | | | | |
| Financial liabilities, derivative liabilities and collateral pledged | | | | |
| Counterparty 1 | \$1,340 | \$ 167 | \$ 1,173 | \$— |
| Counterparty 2 | 706 | 706 | — | — |
| Counterparty 3 | 2,705 | 2,705 | — | — |
| Counterparty 4 | 3,812 | 2,683 | 1,129 | — |
| Counterparty 5 | 6,647 | 6,647 | — | — |
| Counterparty 6 | 9 | 9 | — | — |
| Counterparty 8 | 2,963 | 2,963 | — | — |
| Counterparty 9 | 1,181 | 703 | 478 | — |
| Counterparty 15 | 836 | — | 732 | 104 |
| | \$20,199 | \$ 16,583 | \$ 3,512 | \$ 104 |

Securities sold under an agreement to repurchase

| | | | | |
|----------------|----------|-----------|------|-----|
| Counterparty 4 | \$29,618 | \$ 29,618 | \$ — | \$— |
| | \$29,618 | \$ 29,618 | \$ — | \$— |

The gross amounts of assets presented in the condensed consolidated balance sheets presented above includes the (1) fair value of derivative contract assets as well as gross OTC option contract assets of \$3.0 million included in other investments in the condensed consolidated balance sheets.

The gross amounts of liabilities presented in the condensed consolidated balance sheets presented above includes (2) the fair value of derivative contract liabilities as well as gross OTC option contract liabilities of \$5.7 million included in securities sold, not yet purchased in the condensed consolidated balance sheets.

7. Loss and loss adjustment expense reserves

As of June 30, 2018 and December 31, 2017, loss and loss adjustment expense reserves in the condensed consolidated balance sheets was comprised of the following:

| | June 30, 2018 | December 31, 2017 |
|---|------------------|----------------------|
| Case loss and loss adjustment expense reserves | \$ 116,957 | \$ 115,622 |
| Incurred but not reported loss and loss adjustment expense reserves | 673,840 | 604,260 |
| Deferred gains on retroactive reinsurance contracts | 516 | 688 |
| | \$ 791,313 | \$ 720,570 |

The following table represents the activity in the loss and loss adjustment expense reserves for the six months ended June 30, 2018 and 2017:

| | June 30, 2018 | June 30, 2017 |
|--|------------------|------------------|
| Gross reserves for loss and loss adjustment expenses, beginning of period | \$ 720,570 | \$ 605,129 |
| Less: loss and loss adjustment expenses recoverable, beginning of period | (1,113) | (1) |
| Net reserves for loss and loss adjustment expenses, beginning of period | 719,457 | 605,128 |
| Increase (decrease) in net loss and loss adjustment expenses incurred in respect of losses occurring in: | | |
| Current year | 167,419 | 218,559 |
| Prior years (1) | 9,201 | (25,285) |
| Total incurred loss and loss adjustment expenses | 176,620 | 193,274 |
| Net loss and loss adjustment expenses paid in respect of losses occurring in: | | |
| Current year | (35,471) | (19,737) |
| Prior years | (70,781) | (111,480) |
| Total net paid losses | (106,252) | (131,217) |
| Foreign currency translation | (3,912) | 9,561 |
| Net reserves for loss and loss adjustment expenses, end of period | 785,913 | 676,746 |
| Plus: loss and loss adjustment expenses recoverable, end of period | 1,414 | 1,713 |
| Plus: deferred charges on retroactive reinsurance contracts | 3,986 | — |
| Gross reserves for loss and loss adjustment expenses, end of period | \$ 791,313 | \$ 678,459 |

(1) In the period ended June 30, 2018, the Company started including the amortization of deferred gains on retroactive reinsurance contracts in prior year loss development. This line item was previously presented separately in the loss reserves roll forward presented above. The prior year presentation has been adjusted to conform with the current year presentation.

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

The \$9.2 million net increase in prior years' reserves for the six months ended June 30, 2018 includes a \$17.7 million increase in loss reserves resulting from increases in premium earnings estimates on certain contracts, partially offset by \$8.5 million of net favorable reserve development related to decreases in loss reserve estimates. The net increase in loss reserves as well as the impact of any offsetting changes in acquisition costs as a result of sliding scale or profit commissions is explained as follows:

The \$17.7 million net increase in loss and loss adjustment expenses incurred resulting from increases in premium earnings estimates was accompanied by a \$5.2 million increase in acquisition costs, for a total of \$22.9 million increase in loss and loss adjustment expenses incurred and acquisition costs. The increase in loss and loss adjustment expenses incurred and acquisition costs was due to an increase in prior period earned premium of \$23.2 million. The increase in prior period earned premium was the result of changes in ultimate premium and earning pattern estimates. The net impact was a \$0.3 million improvement in the net underwriting results for the six months ended June 30, 2018.

The \$8.5 million of net favorable prior years' reserve development for the six months ended June 30, 2018 was accompanied by net increases of \$5.7 million in acquisition costs, resulting in a \$2.8 million improvement in the net underwriting results, primarily due to:

- \$5.4 million of net favorable underwriting loss development relating to several workers' compensation contracts written from 2012 to 2017, driven by better than expected loss experience;
- \$2.9 million of net favorable underwriting loss development primarily relating to one multi-line contract written from 2014 to 2017, driven by better than expected loss experience;
- \$1.9 million of net favorable underwriting loss development from several other contracts as a result of better than expected loss experience; partially offset by
- \$7.4 million of net adverse underwriting loss development primarily relating to our Florida homeowners' quota share reinsurance contracts. This development is a result of higher than anticipated water damage claims and an increase in the practice of assignment of benefits whereby homeowners assign their rights for filing and settling claims to attorneys and public adjusters. This practice has led to increases in the frequency of claims reported as well as the severity of losses and loss adjustment expenses.

In total, the change in net underwriting loss for prior periods due to loss reserve development and adjustments to premium earnings estimates resulted in a \$3.1 million improvement in the net underwriting results for the six months ended June 30, 2018.

In the six months ended June 30, 2018, the Company recorded a deferred charge of \$4.0 million relating to retroactive reinsurance contracts written in the period. Deferred charge on retroactive contracts are recorded in other assets on the Company's balance sheet.

The \$25.3 million net decrease in prior years' reserves, which includes \$1.4 million for the amortization of deferred gains, for the six months ended June 30, 2017 includes \$32.5 million of net favorable reserve development related to decreases in loss reserve estimates, partially offset by \$7.2 million of additional loss reserves resulting from increases in premium earnings estimates on certain contracts. The net decrease in loss reserves as well as the impact of any offsetting changes in acquisition costs as a result of sliding scale or profit commissions is explained as follows:

The \$32.5 million of net favorable prior years' reserve development for the six months ended June 30, 2017 was primarily a result of having favorable loss development on certain retroactive reinsurance contracts. These retroactive reinsurance contracts had profit commission terms such that the favorable reserve development associated with these contracts was offset by similar increases in acquisition costs. The total net increases in acquisition costs associated with the prior year loss development for the six months ended June 30, 2017 was \$32.5 million, resulting in minimal impact in the net underwriting loss.

The \$7.2 million increase in loss and loss adjustment expenses incurred related to the increase in premium earnings estimates on certain contracts was accompanied by a \$0.4 million increase in acquisition costs, for a total of \$7.6 million increase in loss and loss adjustment expenses incurred and acquisition costs. The related increase in earned premium related to the increase in premium earnings estimates was \$7.6 million, resulting in minimal impact in net underwriting loss for the six months ended June 30, 2017.

In total, there was minimal change in net underwriting loss for prior periods due to loss reserve development and adjustments to premium earnings estimates for the six months ended June 30, 2017.

8. Reinsurance premiums ceded

From time to time, the Company purchases retrocessional coverage for one or more of the following reasons: to manage its overall exposure, to reduce its net liability on individual risks, to obtain additional underwriting capacity and to balance its 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 the Company's interests with those of its counterparties. In the six months ended June 30, 2018, the Company entered into a quota share contract that provides coverage for recovery of a portion of its mortgage assumed reinsurance contracts. Premiums ceded for the three and six months ended June 30, 2018 were \$3.5 million and \$18.1 million, respectively (2017 - \$1.4 million and \$2.6 million, respectively). Loss and loss adjustment expenses recoverable from the retrocessionaire are recorded as assets. Retrocession contracts do not relieve the Company from its obligations to the insureds. Failure of retrocessionaires to honor their obligations could result in losses to the Company. As of June 30, 2018, the Company had loss and loss adjustment expenses recoverable of \$1.4 million (December 31, 2017 - \$1.1 million). The Company generally obtains retrocessional coverage from companies rated "A-" or better by A.M. Best Company, Inc. unless the retrocessionaire's obligations are collateralized.

9. Management and performance fees

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

Pursuant to the Investment Agreements, TP GP receives a performance fee allocation equal to 20% of the net investment income of the applicable company's share of the investment assets managed by Third Point LLC. The performance fee accrued on net investment income is included in liabilities as a performance fee payable to related party during the period, unless funds are redeemed from the Joint Venture accounts, in which case, the proportionate share of performance fee, as described in Note 17, associated with the redemption is earned and allocated to noncontrolling interests in related party. At the end of each year, the remaining portion of the performance fee payable that has not been included in noncontrolling interests in related party through redemptions is earned and then allocated to TP GP's capital account in accordance with the Investment Agreements.

The performance fee is subject to a loss carryforward provision pursuant to which TP GP is required to maintain a loss recovery account, which represents the sum of all prior period net loss amounts, not offset by prior year net profit amounts, and that is allocated to future profit amounts until the loss recovery account has returned to a positive balance. Until such time, no performance fees are payable under the Investment Agreements.

Additionally, Third Point LLC is entitled to receive management fees, which are paid monthly. Pursuant to the Investment Agreements, a total management fee of 1.5% of net investments managed by Third Point LLC was paid to Third Point LLC.

For the three and six months ended June 30, 2018 and 2017, management and performance fees to related parties are as follows:

| | Three months ended | | Six months ended | |
|---|--------------------|---------------|------------------|---------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Management fees - Third Point LLC | \$9,635 | \$8,777 | \$19,410 | \$17,244 |
| Performance fees - Third Point Advisors LLC | 4,858 | 24,529 | 5,130 | 55,387 |
| | \$14,493 | \$33,306 | \$24,540 | \$72,631 |

As of June 30, 2018, \$4.6 million related to performance fees due under the Investment Agreements were included in performance fee payable to related party in the condensed consolidated balance sheets. As of June 30, 2018, \$0.5 million (December 31, 2017, \$94.0 million) related to performance fees earned by TP GP were included in noncontrolling interests in related party. See Note 17 for additional information.

10. Deposit accounted contracts

The following table represents activity for the deposit contracts for the six months ended June 30, 2018 and year ended December 31, 2017:

| | June 30, 2018 | December 31, 2017 |
|-----------------------------------|------------------|----------------------|
| Balance, beginning of period | \$ 129,133 | \$ 104,905 |
| Consideration received | 1,114 | 22,658 |
| Consideration receivable | — | 2,080 |
| Net investment expense allocation | 2,449 | 2,800 |
| Payments | (2,893) | (3,545) |
| Foreign currency translation | (103) | 235 |
| Balance, end of period | \$ 129,700 | \$ 129,133 |

11. Senior Notes payable and letter of credit facilities

Senior Notes payable

As of June 30, 2018, TPRUSA had outstanding debt obligations consisting of an aggregate principal amount of \$115.0 million of senior unsecured notes (the “Notes”) due February 13, 2025. The Notes bear interest at 7.0% and interest is payable semi-annually on February 13 and August 13 of each year. The Notes are fully and unconditionally guaranteed by Third Point Re, and, in certain circumstances specified in the indenture governing the Notes, certain existing or future subsidiaries of the Company may be required to guarantee the Notes. As of June 30, 2018, the Company had capitalized \$1.2 million of costs associated with the Notes, which are presented as a direct deduction from the principal amount of the Notes on the condensed consolidated balance sheets. As of June 30, 2018, the Notes had an estimated fair value of \$114.5 million (December 31, 2017 - \$116.7 million). The fair value measurements were based on observable inputs and therefore were considered to be Level 2. The Company was in compliance with all debt covenants as of June 30, 2018 and December 31, 2017.

Letters of credit

As of June 30, 2018, the Company had entered into the following letter of credit facilities:

| | Facility | Utilized | Collateral |
|-------------|-----------|-----------|------------|
| Citibank | \$300,000 | \$158,312 | \$158,312 |
| Lloyds Bank | 125,000 | 82,233 | 82,233 |
| | \$425,000 | \$240,545 | \$240,545 |

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

12. Net investment income

Net investment income for the three and six months ended June 30, 2018 and 2017 consisted of the following:

| | Three months ended | | Six months ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Net investment income by type | | | | |
| Net realized gains on investments and investment derivatives | \$64,731 | \$96,869 | \$130,500 | \$157,945 |
| Net change in unrealized gains (losses) on investments and investment derivatives | (32,532) | 29,140 | (95,520) | 124,814 |
| Net losses on foreign currencies | (1,830) | (1,601) | (2,617) | (2,153) |
| Dividend and interest income | 24,493 | 22,440 | 37,717 | 39,707 |
| Dividends paid on securities sold, not yet purchased | (2,329) | (1,143) | (4,221) | (1,668) |
| Other expenses | (6,865) | (5,074) | (12,352) | (10,179) |
| Net investment income before management and performance fees to related parties | 45,668 | 140,631 | 53,507 | 308,466 |
| Management and performance fees to related parties | (14,493) | (33,306) | (24,540) | (72,631) |
| Net investment income | \$31,175 | \$107,325 | \$28,967 | \$235,835 |

The following table provides an additional breakdown of our net investment income by asset and liability type for the three and six months ended June 30, 2018 and 2017:

| | Three months ended | | Six months ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Net investment income (loss) by asset type | | | | |
| Equity securities | \$58,881 | \$111,622 | \$40,556 | \$261,891 |
| Private common equity securities | (11) | 3 | (453) | (24) |
| Private preferred equity securities | 166 | 1,362 | (1,874) | 1,624 |
| Total equities | 59,036 | 112,987 | 38,229 | 263,491 |
| Asset-backed securities | 7,033 | 2,300 | 19,482 | 5,133 |
| Bank debt | 800 | 2,072 | 3,321 | 6,214 |
| Corporate bonds | (737) | 2,335 | (3,413) | 11,250 |
| Municipal bonds | 2,470 | — | 6,248 | — |
| U.S. Treasury securities | 478 | 1,205 | (159) | 2,365 |
| Sovereign debt | (8,533) | 5,396 | (4,402) | 11,848 |
| Other debt securities | 31 | — | 469 | — |
| Total debt securities | 1,542 | 13,308 | 21,546 | 36,810 |
| Options | (5,562) | (10,383) | (6,619) | (17,848) |
| Rights and warrants | 63 | (6) | 47 | 38 |
| Real estate | 414 | — | 501 | — |
| Trade claims | (284) | 56 | (287) | 219 |
| Total other investments | (5,369) | (10,333) | (6,358) | (17,591) |
| Net investment income (loss) in funds valued at NAV | 282 | 3,394 | (625) | 7,017 |
| Total net investment income from invested assets | 55,491 | 119,356 | 52,792 | 289,727 |
| Net investment income (loss) by liability type | | | | |
| Equity securities | (23,844) | (1,469) | (10,926) | (7,467) |
| Sovereign debt | — | 2 | — | 2 |
| Corporate bonds | (1,934) | (1,221) | (1,969) | (2,914) |
| Options | 9,174 | 6,056 | 12,907 | 4,363 |
| Total net investment income (loss) from securities sold, not yet purchased | (16,604) | 3,368 | 12 | (6,016) |
| Other investment income (losses) and other expenses not presented above | | | | |
| Other investment expenses | (673) | (2,098) | (1,026) | (4,012) |
| Net investment income on derivative contracts | 8,680 | 19,677 | 6,059 | 30,405 |
| Net investment loss on cash, including foreign exchange loss | (5,485) | (3,057) | (9,345) | (5,993) |
| Net investment losses on securities purchased under an agreement to sell and securities sold under an agreement to repurchase | (32) | (19) | (241) | (39) |
| Withholding taxes reclassified to income tax expense | 4,291 | 3,404 | 5,256 | 4,394 |
| Total other investment income and other expenses | 6,781 | 17,907 | 703 | 24,755 |
| Net investment income before management and performance fees to related parties | 45,668 | 140,631 | 53,507 | 308,466 |
| Management and performance fees to related parties | (14,493) | (33,306) | (24,540) | (72,631) |
| Net investment income | \$31,175 | \$107,325 | \$28,967 | \$235,835 |

13. Other expenses

Other expenses for the three and six months ended June 30, 2018 and 2017 consisted of the following:

| | Three months ended | | Six months ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Investment expense (income) on deposit liabilities | \$ 1,188 | \$(97) | \$ 2,449 | \$ 312 |
| Investment expense and change in fair value of embedded derivatives in reinsurance contracts | 2,795 | 2,202 | 5,529 | 4,694 |
| | \$ 3,983 | \$ 2,105 | \$ 7,978 | \$ 5,006 |

14. Income taxes

The Company provides for income tax expense or benefit based upon pre-tax income or loss reported in the condensed consolidated statements of income (loss) and the provisions of currently enacted tax laws. The Company and its Bermuda subsidiaries are incorporated under the laws of Bermuda and are subject to Bermuda law with respect to taxation. Under current Bermuda law, the Company and its Bermuda subsidiaries are not subject to any income or capital gains taxes in Bermuda. In the event that such taxes are imposed, the Company and its Bermuda subsidiaries would be exempted from any such taxes until March 2035 under the Tax Assurance Certificates issued to such entities pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966, as amended.

The Company has an operating subsidiary incorporated in Bermuda, Third Point Re USA, which made an election to pay tax in the United States of America under Section 953(d) of the U.S. Internal Revenue Code of 1986, as amended. Our non-U.S. subsidiaries would become subject to U.S. federal income tax only to the extent that they derive income from activity that is deemed to be the conduct of a trade or business within the United States. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (3) creating the base erosion anti-abuse tax (BEAT), a new minimum tax; and (4) creating a new limitation on deductible interest expense. Although the Company believes that it has accounted for the most significant tax effects of the Tax Act, there may be further changes that could impact the Company's calculations of certain deferred tax amounts.

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

The Company is subject to withholding taxes on income sourced in the United States and in other countries, subject to each country's specific tax regulations. Income subject to withholding taxes includes, but is not limited to, dividends, capital gains and interest on certain investments. The Company has recorded uncertain tax positions related to investment transactions in certain foreign jurisdictions. As of June 30, 2018, the Company has accrued \$1.9 million (December 31, 2017 - \$1.9 million) for uncertain tax positions.

For the three and six months ended June 30, 2018 and 2017, the Company recorded income tax expense, as follows:

| | Three months ended | | Six months ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Income tax expense (benefit) related to U.S. and U.K. subsidiaries | \$ 61 | \$ 1,844 | \$(788) | \$ 6,027 |
| Change in uncertain tax positions | 38 | 59 | 50 | 184 |
| Withholding taxes on certain investment transactions | 4,291 | 3,404 | 5,256 | 4,394 |
| | \$ 4,390 | \$ 5,307 | \$ 4,518 | \$ 10,605 |

15. Share capital

The following tables present a summary of the common shares issued and outstanding and shares repurchased held as treasury shares as of and for the six months ended June 30, 2018 and 2017:

| Common shares | 2018 | 2017 |
|---|--------------|--------------|
| Common shares issued, beginning of period | 107,227,347 | 106,501,299 |
| Options exercised | — | 100,000 |
| Restricted shares granted, net of forfeitures | 50,644 | 36,418 |
| Performance restricted shares granted, net of forfeitures and shares withheld | 257,045 | 694,886 |
| Retirement of treasury shares and shares repurchased (1) | (8,269,193) | — |
| Warrants exercised, net (2) | 361,556 | — |
| Common shares issued, end of period | 99,627,399 | 107,332,603 |
| Treasury shares, end of period | — | (3,944,920) |
| Common shares outstanding, end of period | 99,627,399 | 103,387,683 |

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

During the six months ended June 30, 2018, 1,156,184 warrants were exercised. As a result of the warrant holder (2) electing net settlement, 794,628 of those common shares were withheld by the Company and were subsequently retired, resulting in a net issuance of 361,556 common shares.

Authorized and issued

The Company's authorized share capital of \$33.0 million is comprised of 300,000,000 common shares with a par value of \$0.10 each and 30,000,000 preference shares with a par value of \$0.10 each. No preference shares have been issued to date.

Share repurchases

On February 28, 2018, the Company's Board of Directors authorized the repurchase of an additional \$148.3 million common shares, which together with the shares remaining under the previously announced share repurchase program would allow the Company to repurchase up to \$200.0 million more of the Company's outstanding common shares in the aggregate. Under the common share repurchase program, the Company may repurchase shares from time to time in privately negotiated transactions or in open-market purchases in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

During the three months ended June 30, 2018, the Company repurchased 2,685,965 of its common shares in the open market for \$36.6 million at a weighted average cost, including commissions, of \$13.62 per share. Common shares repurchased by the Company during the period were retired.

During the six months ended June 30, 2018, the Company repurchased 4,324,273 of its common shares in the open market for \$60.4 million at a weighted average cost, including commissions, of \$13.97 per share. Common shares repurchased by the Company during the period were retired. In the three months ended March 31, 2018, the Company also retired all shares previously held in treasury.

As of June 30, 2018, the Company was authorized to repurchase up to an aggregate of \$139.6 million of additional common shares under its share repurchase program.

16. Share-based compensation

The following table provides the total share-based compensation expense included in general and administrative expenses during the three and six months ended June 30, 2018 and 2017:

| | Three months ended | | Six months ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Management and director options | \$60 | \$ 111 | \$155 | \$ 459 |
| Restricted shares with service condition | 139 | 154 | 279 | 278 |
| Restricted shares with service and performance condition | 1,114 | 1,279 | 2,124 | 2,637 |
| | \$1,313 | \$ 1,544 | \$2,558 | \$ 3,374 |

As of June 30, 2018, the Company had \$9.2 million (December 31, 2017 - \$5.8 million) of unamortized share compensation expense, which is expected to be amortized over a weighted average period of 1.6 years (December 31, 2017 - 1.5 years).

Management and director options

The management and director options activity for the six months ended June 30, 2018 and year ended December 31, 2017 were as follows:

| | Number of options | Weighted average exercise price |
|-------------------------------|-------------------|---------------------------------|
| Balance as of January 1, 2017 | 9,596,993 | \$ 13.64 |
| Forfeited | (558,138) | 18.00 |
| Exercised | (150,802) | 10.00 |
| Balance as of January 1, 2018 | 8,888,053 | 13.43 |
| Forfeited | — | — |
| Exercised | — | — |
| Balance as of June 30, 2018 | 8,888,053 | \$ 13.43 |

As of June 30, 2018, the weighted average remaining contractual term for options outstanding and exercisable was 3.7 years and 3.7 years, respectively (December 31, 2017 - 4.2 years and 4.1 years, respectively).

The following table summarizes information about the Company's management and director share options outstanding as of June 30, 2018:

| Range of exercise prices of options | Options outstanding | | | Options exercisable | |
|-------------------------------------|---------------------|---------------------------------|----------------------------|---------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Remaining contractual life | Number of options | Weighted average exercise price |
| \$10.00 - \$10.89 | 5,123,532 | \$ 10.04 | 3.6 years | 5,123,531 | \$ 10.04 |
| \$15.05 - \$16.89 | 1,917,145 | 15.93 | 3.8 years | 1,875,285 | 15.95 |
| \$20.00 - \$25.05 | 1,847,376 | 20.26 | 3.7 years | 1,819,471 | 20.22 |
| | 8,888,053 | \$ 13.43 | 3.7 years | 8,818,287 | \$ 13.40 |

Restricted shares with service condition

Restricted share award activity for the six months ended June 30, 2018 and year ended December 31, 2017 was as follows:

| | Number of non-vested restricted shares | Weighted average grant date fair value |
|-------------------------------|--|--|
| Balance as of January 1, 2017 | 301,043 | \$ 11.12 |
| Granted | 36,418 | 12.15 |
| Forfeited | (71,429) | 14.00 |
| Vested | (247,823) | 10.36 |
| Balance as of January 1, 2018 | 18,209 | 12.15 |
| Granted | 50,644 | 13.45 |
| Vested | (20,724) | 12.53 |
| Balance as of June 30, 2018 | 48,129 | \$ 13.35 |

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

Restricted shares with service and performance condition

Restricted share award activity for the restricted shares with a service and performance condition for the six months ended June 30, 2018 and year ended December 31, 2017 were as follows:

| | Number of non-vested restricted shares | Number of non-vested restricted shares probable of vesting | Weighted average grant date fair value of probable of vesting |
|--|--|--|---|
| Balance as of January 1, 2017 | 1,381,740 | 577,486 | \$ 12.91 |
| Granted | 935,825 | 623,882 | 12.66 |
| Forfeited | (325,568) | (45,617) | 12.57 |
| Vested | (136,618) | (136,618) | 14.60 |
| Change in estimated restricted shares considered probable of vesting | n/a | (131,930) | 12.17 |
| Balance as of January 1, 2018 | 1,855,379 | 887,203 | 12.60 |
| Granted | 551,065 | 353,380 | 14.03 |
| Forfeited | (288,700) | — | 14.00 |
| Vested | (115,757) | (115,757) | 14.00 |
| Change in estimated restricted shares considered probable of vesting | n/a | 29,509 | 12.39 |
| Balance as of June 30, 2018 | 2,001,987 | 1,154,335 | \$ 12.65 |

17. Noncontrolling interests in related party

Noncontrolling interests in related party represents the portion of equity in consolidated subsidiaries not attributable, directly or indirectly, to the Company. The joint ventures created through the Investment Agreements (Note 9) have been considered variable interest entities and have been consolidated in accordance with ASC 810, Consolidation (ASC 810). Since the Company was deemed to be the primary beneficiary, the Company has consolidated the joint ventures and has recorded TP GP's minority interests as redeemable noncontrolling interests in related party and noncontrolling interests in related party in the condensed consolidated balance sheets.

A portion of the noncontrolling interest in investment affiliates is subject to contractual withdrawal rights of TP GP, whereas TP GP, at its sole discretion, can withdraw the capital over the minimum capital required to be maintained in its capital accounts. This excess capital is therefore recorded on the Company's condensed consolidated balance sheets as redeemable noncontrolling interest in related party whereas the required minimum capital is recorded as noncontrolling interests in related party within shareholders' equity on the Company's condensed consolidated balance sheets since it does not have withdrawal rights.

Changes in the presentation of noncontrolling interests

During the quarter ended September 30, 2017, the Company identified that a portion of its noncontrolling interests were redeemable. This portion of the noncontrolling interests had previously been presented in noncontrolling interests to related party within shareholders' equity when it should have been presented in the mezzanine section of the condensed consolidated balance sheets as redeemable noncontrolling interests in related party. As of June 30, 2017, \$14.9 million of the noncontrolling interests in related party should have been presented in the mezzanine section of the condensed consolidated balance sheets as redeemable noncontrolling interests in related party and should have been excluded from noncontrolling interests in related party in shareholders' equity. Although this impacted total shareholders' equity, it did not impact shareholders' equity attributable to Third Point Re common shareholders or retained earnings. In addition, this change did not impact the consolidated statements of income, earnings per share or consolidated statement of cash flows. The Company has evaluated the effect of the incorrect presentation, both qualitatively and quantitatively, and concluded that it did not have a material impact on, nor require amendment of, any previously filed annual or quarterly consolidated financial statements.

The following table is a reconciliation of the beginning and ending carrying amounts of redeemable noncontrolling interests in related party, noncontrolling interests in related party and total noncontrolling interests in related party for the six months ended June 30, 2018 and 2017:

| | Redeemable noncontrolling interests in related party | | Noncontrolling interests in related party | | Total noncontrolling interests in related party | |
|---------------------------------------|--|---------------|---|---------------|---|---------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Balance, beginning of period | \$ 108,219 | \$ — | —\$5,407 | \$ 35,674 | \$ 113,626 | \$ 35,674 |
| Changes in capital account allocation | (101,040) | — | (251) | (15,865) | (101,291) | (15,865) |
| Balance, end of period | \$ 7,179 | \$ — | —\$5,156 | \$ 19,809 | \$ 12,335 | \$ 19,809 |

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

| | Third Point Re BDA | | Third Point Re USA | | Total | |
|--|--------------------|---------------|--------------------|---------------|---------------|---------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Balance, beginning of period | \$97,619 | \$30,358 | \$16,007 | \$5,316 | \$113,626 | \$35,674 |
| Net income attributable to total noncontrolling interests in related party | 137 | 1,764 | 82 | 437 | 219 | 2,201 |
| Contributions (1) | 476 | 1,818 | 14 | 115 | 490 | 1,933 |
| Redemptions | (89,000) | (17,999) | (13,000) | (2,000) | (102,000) | (19,999) |
| Balance, end of period | \$9,232 | \$15,941 | \$3,103 | \$3,868 | \$12,335 | \$19,809 |

(1) Contributions include performance fees earned during the period. See Note 9 for additional information.

Non-consolidated variable interest entities

The Company invests in limited partnerships and other investment vehicles as part of its overall investment strategy. Some of these entities are affiliated with our investment manager, Third Point LLC. The activities of these variable

interest entities are generally limited to holding investments and the Company's involvement in these entities is passive in nature. The Company does not have the power to direct the activities which most significantly impact the variable interest entities economic performance and therefore, the Company is not the primary beneficiary of these variable interest entities.

The following variable interest entities were not consolidated as per ASC 810:

TP Lux Holdco LP

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

LuxCo's principal objective is to act as a collective investment vehicle to purchase Euro debt and equity investments. The Company invests in the Cayman HoldCo alongside other investment funds managed by the Investment Manager. As of June 30, 2018, the Company held a 14.6% (December 31, 2017 - 15.6%) interest in the Cayman Holdco. The Company accounts for its investment in the limited partnership under the variable interest model, in which the Company is not the primary beneficiary, at NAV, as a practical expedient for fair value, in the condensed consolidated balance sheets. The Company records changes in the fair value of this investment in the condensed consolidated statements of income (loss).

As of June 30, 2018, the estimated fair value of the investment in the limited partnership was \$1.2 million (December 31, 2017 - \$0.6 million). The Company contributed \$0.3 million to the Cayman HoldCo during the six months ended June 30, 2018 due to the purchase of underlying investments (2017 - \$39.6 million net distributions). The valuation policy with respect to this investment in a limited partnership is further described in Note 4. The Company's maximum exposure to loss as a result of its involvement with this investment is limited to the carrying value of the investment.

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

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

The Company has committed to invest \$10.7 million (December 31, 2017 - \$10.9 million) in the Hellenic Fund and as of June 30, 2018, had an unfunded capital commitment of \$3.2 million. No capital distributions or calls were made during the six months ended June 30, 2018 (2017 - \$1.3 million net distributions).

As of June 30, 2018, the estimated fair value of the Company's investment in the Hellenic Fund was \$4.9 million (December 31, 2017 - \$4.9 million), representing a 2.9% interest (December 31, 2017 - 2.9%). The Company accounts for its investment in the limited partnership under the variable interest model, in which the Company is not the primary beneficiary, at NAV, as a practical expedient for fair value, in the condensed consolidated balance sheets. The Company records changes in the fair value of this investment in the condensed consolidated statements of income (loss).

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

TP DR Holdings LLC

The Company holds an equity and debt investment in TP DR Holdings LLC ("TP DR"), which is an affiliate of the Investment Manager. In December 2016, TP DR was formed as a limited liability company under the laws of the Cayman Islands to invest and own 100% equity interest in DCA Holdings Six Ltd. and its wholly owned subsidiary group. TP DR's principal objective is to own, develop and manage properties in the Dominican Republic.

The Company invests in TP DR alongside other investment funds managed by the Investment Manager and third-party investors. As of June 30, 2018, the Company held a 7.0% equity (December 31, 2017 - 7.0%) and 14.0% debt interest (December 31, 2017 - 13.1%) in TP DR. The Company accounts for its equity investment in TP DR under the variable interest model, in which the Company is not the primary beneficiary, at NAV, as a practical expedient for fair value, in the condensed consolidated balance sheets. The Company records changes in the fair value of this investment in the condensed consolidated statements of income (loss).

As of June 30, 2018, the estimated fair value of the investment was \$13.8 million (December 31, 2017 - \$12.7 million), corresponding to \$3.9 million of equity (December 31, 2017 - \$3.7 million) and \$9.9 million of debt interest (December 31, 2017 - \$9.0 million). During the six months ended June 30, 2018, the Company contributed cash of \$1.9 million (2017 - \$0.4 million) to TP DR. The Company has no further commitments or guarantees with respect to TP DR. The valuation policy with respect to this investment in investment funds is further described in Note 4. The Company's maximum exposure to loss as a result of its involvement with this investment is limited to the carrying value of the investment.

Cloudbreak II Cayman Ltd and TP Trading II LLC

The Company holds an equity interest in Cloudbreak II Cayman Ltd, Cloudbreak II US LLC (collectively, the "Cloudbreak entities") and TP Trading II LLC which are affiliates of the Investment Manager. The Company invests in the Cloudbreak entities and TP Trading II LLC alongside other investment funds managed by the Investment Manager. These entities' are invested in a structure whose primary purpose is to purchase consumer loans for securitization and warrants from a marketplace lending platform.

As of June 30, 2018, the Cloudbreak entities held \$5.1 million (December 31, 2017 - \$4.6 million) of the Company's asset-backed security investments, which are included in investments in securities in the condensed consolidated balance sheet. The Company's pro rata interest in the underlying investments is registered in the name of Cloudbreak II US LLC and the related income and expense are reflected in the condensed consolidated balance sheets and the condensed consolidated statements of income (loss).

As of June 30, 2018, the Company held a 9.4% (December 31, 2017 - 9.3%) interest in TP Trading II LLC. The Company accounts for its equity investment in TP Trading II LLC under the variable interest model, in which the Company is not the primary beneficiary, at NAV, as a practical expedient for fair value, in the condensed consolidated balance sheets. The Company records changes in the fair value of this investment in the condensed consolidated statements of income (loss). As of June 30, 2018, the estimated fair value of the investment was \$5.9 million (December 31, 2017 - \$6.0 million). The valuation policy with respect to this investment is further described in Note 4. The Company's maximum exposure to loss as a result of its involvement with these investments are limited to the carrying value of the investments.

Ventures Entities

The Company holds equity interests in Venture Three Holdings LLC, Venture Four Holdings LLC, Venture Five Holdings LLC and Venture Six Holdings LLC (collectively, the "Ventures entities"), which are affiliates of the Investment Manager. The Company invests in the Ventures entities alongside other investment funds managed by the Investment Manager. The primary purpose of these entities is to make investments in direct commercial real estate, real estate debt and a publicly traded telecommunications company.

The Company accounts for its equity interests in the Ventures entities under the variable interest model, in which the Company is not the primary beneficiary. As of June 30, 2018, the Ventures entities held \$17.8 million (December 31, 2017 - \$7.5 million) of the Company's investments, which are included in investments in securities in the condensed consolidated balance sheets. The Company records changes in the fair value of this investment in the condensed consolidated statements of income (loss). The valuation policy with respect to this investment is further described in Note 4. The Company's maximum exposure to loss as a result of its involvement with this investment is limited to the carrying value of the investment.

Cloudbreak Aggregator LP

The Company holds equity interests in Cloudbreak Aggregator LP, which is an affiliate of the Investment Manager. The Company invests in the Cloudbreak Aggregator LP alongside other investment funds managed by the Investment Manager. The primary purpose of this entity is to invest in Far Point LLC, the sponsor of Far Point Acquisition Corporation "FPAC". FPAC is a NYSE listed special acquisition corporation.

The Company accounts for its equity interests in the Cloudbreak Aggregator LP under the variable interest model, in which the Company is not the primary beneficiary. As of June 30, 2018, the Cloudbreak Aggregator LP held \$3.2 million (December 31, 2017 - \$nil) of the Company's investments in limited partnerships which are included in investments in securities in the condensed consolidated balance sheets. The Company records changes in the fair value of this investment in the condensed consolidated statements of income (loss). The valuation policy with respect to this investment is further described in Note 4. The Company's maximum commitment amount is \$58.5 million. The Company's maximum exposure to loss as a result of its involvement with this investment is limited to the carrying value of the investment and the commitment.

18. Earnings (loss) per share available to Third Point Re common shareholders

The following sets forth the computation of basic and diluted earnings (loss) per share available to Third Point Re common shareholders for the three and six months ended June 30, 2018 and 2017:

| | Three months ended | | Six months ended | |
|---|---|-------------|------------------|-------------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2018 | 2017 | 2018 | 2017 |
| | (\$ in thousands, except share and per share amounts) | | | |
| Weighted-average number of common shares outstanding: | | | | |
| Basic number of common shares outstanding | 99,498,901 | 102,283,844 | 100,342,636 | 103,144,078 |
| Dilutive effect of options | 1,274,609 | 1,084,217 | — | 937,864 |
| Dilutive effect of warrants | 878,977 | 988,830 | — | 860,484 |
| Dilutive effect of restricted shares with service and performance condition | 379,998 | 212,335 | — | 207,284 |
| Diluted number of common shares outstanding | 102,032,485 | 104,569,226 | 100,342,636 | 105,149,710 |
| Basic earnings (loss) per common share: | | | | |
| Net income (loss) available to Third Point Re common shareholders | \$ 19,602 | \$ 74,578 | \$ (6,399) | \$ 178,764 |
| Net income allocated to Third Point Re participating common shareholders | (6) | (71) | — | (204) |
| Net income (loss) allocated to Third Point Re common shareholders | \$ 19,596 | \$ 74,507 | \$ (6,399) | \$ 178,560 |
| Basic earnings (loss) per common share | \$ 0.20 | \$ 0.73 | \$ (0.06) | \$ 1.73 |
| Diluted earnings (loss) per common share: | | | | |
| Net income (loss) available to Third Point Re common shareholders | \$ 19,602 | \$ 74,578 | \$ (6,399) | \$ 178,764 |
| Net income allocated to Third Point Re participating common shareholders | (6) | (69) | — | (200) |
| Net income (loss) allocated to Third Point Re common shareholders | \$ 19,596 | \$ 74,509 | \$ (6,399) | \$ 178,564 |
| Diluted earnings (loss) per common share | \$ 0.19 | \$ 0.71 | \$ (0.06) | \$ 1.70 |

For the three months ended June 30, 2018 and 2017, anti-dilutive options of 3,764,521 and 4,322,659, respectively, were excluded from the computation of diluted earnings per share. For the six months ended June 30, 2018 and 2017, anti-dilutive options of 3,764,521 and 4,322,659, respectively, were excluded from the computation of diluted earnings per share.

Additionally, as a result of the net loss for the six months ended June 30, 2018, dilutive options, warrants and restricted shares with service and performance conditions totaling 10,003,738 were considered anti-dilutive and were excluded

from the computation of diluted loss per common share. No allocation of the net loss has been made to participating shares in the calculation of diluted net loss per common share.

19. Related party transactions

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

Third Point Loan L.L.C. (“Loan LLC”) and Third Point Ventures LLC (“Ventures LLC” and, together with Loan LLC, “Nominees”) serve as nominees of the Company and other affiliated investment management clients of the Investment Manager for certain investments. The Nominees have appointed the Investment Manager as its true and lawful agent and attorney. As of June 30, 2018, Loan LLC held \$126.0 million (December 31, 2017 - \$99.6 million) and Ventures LLC held \$38.9 million (December 31, 2017 - \$6.3 million) of the Company’s investments, which are included in investments in securities and derivative contracts in the condensed consolidated balance sheets. The Company’s pro rata interest in the underlying investments registered in the name of the Nominees and the related income and expense are reflected in the condensed consolidated balance sheets and the condensed consolidated statements of income (loss). The valuation policy, with respect to investments held by the nominees, is further discussed in Note 4.

BlackRock, Inc. (“BlackRock”) reported a beneficial ownership interest of more than 10% of the Company’s common shares as of December 31, 2017. As a result, BlackRock is considered a related party as defined by U.S. GAAP. As of June 30, 2018, \$46.9 million (December 31, 2017 - \$106.5 million) of equity securities in BlackRock were included in the Company’s condensed consolidated balance sheets. Included in the Company’s net investment income in its condensed consolidated statements of income (loss) for the three and six months ended June 30, 2018 was \$(5.1) million and \$1.4 million, respectively (2017 - \$3.6 million and \$3.6 million, respectively) of investment income associated with the Company’s investment in BlackRock.

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

Off-balance sheet risk

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

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

Forward and futures contracts are a commitment to purchase or sell financial instruments, currencies or commodities at a future date at a negotiated rate. Forward and futures contracts expose the Company to market risks to the extent that adverse changes occur to the underlying financial instruments such as currency rates or equity index fluctuations. Option contracts give the purchaser the right, but not the obligation, to purchase from or sell to the option writer financial instruments, commodities or currencies within a defined time period for a specified price. The premium received by the Company upon writing an option contract is recorded as a liability, marked to market on a daily basis and is included in securities sold, not yet purchased in the condensed consolidated balance sheets. In writing an option, the Company bears the market risk of an unfavorable change in the financial instrument underlying the written option. Exercise of an option written by the Company could result in the Company selling or buying a financial instrument at a price different from the current fair value.

In the normal course of trading activities in its investment portfolio, the Company trades and holds certain derivative contracts, such as written options, which constitute guarantees. The maximum payout for written put options is limited to the number of contracts written and the related strike prices and the maximum payout for written call options is dependent upon the market price of the underlying security at the date of a payout event. As of June 30, 2018, the investment portfolio had a maximum payout amount of approximately \$653.4 million (December 31, 2017 - \$399.2 million) relating to written put option contracts with expiration ranging from one month to seven months from the balance sheet date. The maximum payout amount could be offset by the subsequent sale, if any, of assets obtained via the settlement of a payout event. The fair value of these written put options as of June 30, 2018 was \$4.4 million (December 31, 2017 - \$3.5 million) and is included in securities sold, not yet purchased in the condensed consolidated balance sheets.

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

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

Credit derivatives

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

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

Upon selling credit default swap protection, the Company may expose itself to the risk of loss from related credit events specified in the contract. Credit spreads of the underlying positions together with the period of expiration is indicative of the likelihood of a credit event under the credit default swap contract and the Company's risk of loss. Higher credit spreads and shorter expiration dates are indicative of a higher likelihood of a credit event resulting in the Company's payment to the buyer of protection. Lower credit spreads and longer expiration dates would indicate the opposite and lowers the likelihood the Company needs to pay the buyer of protection. As of June 30, 2018, there was no cash collateral received specifically related to written credit default swaps as collateral is based on the net exposure associated with all derivative instruments subject to applicable netting agreements with counterparties and may not be specific to any individual derivative contract.

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The following table sets forth certain information related to the Company's written credit derivatives as of June 30, 2018 and December 31, 2017:

| June 30, 2018 | Maximum Payout/ Notional Amount (by period of expiration) | | | Fair Value of Written Credit Derivatives ⁽²⁾ | |
|---|---|--|---|--|--------------------------|
| | 5 years or 0-5 years | Greater Expiring Through 2047 | Total Written Credit Default Swaps (1) | As Liability | Net Asset/(Liability) |
| Credit Spreads on underlying (basis points) | | | | | |
| Single name (0 - 250) | \$2,375 | \$ 2,628 | \$ 5,003 | \$-2,147 | \$ (2,147) |
| December 31, 2017 | Maximum Payout/ Notional Amount (by period of expiration) | | | Fair Value of Written Credit Derivatives ⁽²⁾ | |
| | 5 years or 0-5 years | Greater Expiring Through 2047 | Total Written Credit Default Swaps (1) | As Liability | Net Asset/(Liability) |
| Credit Spreads on underlying (basis points) | | | | | |
| Single name (0 - 250) | \$— | \$ 2,351 | \$ 2,351 | \$-2,085 | \$ (2,085) |

(1) As of June 30, 2018 and December 31, 2017, the Company did not hold any offsetting buy protection credit derivatives with the same underlying reference obligation.

(2) Fair value amounts of derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting.

Concentrations of credit risk

Investments

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

The Company's maximum exposure to credit risk associated with counterparty nonperformance on derivative contracts is limited to the net unrealized gains by counterparties inherent in such contracts which are recognized in the condensed consolidated balance sheets. As of June 30, 2018, the Company's maximum counterparty credit risk exposure was \$43.2 million (December 31, 2017 - \$76.4 million).

Underwriting

The Company is exposed to credit risk through reinsurance contracts with companies that write credit risk insurance. The Company's portfolio of risk is predominantly U.S. mortgage insurance and mortgage credit risk transfer. The Company provides its clients in these lines of business with reinsurance protection against credit deterioration, defaults or other types of financial non-performance. Loss experience in these lines of business has been very good but is cyclical and is affected by the state of the general economic environment. The Company proactively manages the risks associated with these credit-sensitive lines of business by closely monitoring its risk aggregation and by diversifying the underlying risks where possible. The Company has bought some retrocessional coverage against a subset of these risks.

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

The Company has exposure to credit risk related to balances receivable under our reinsurance contracts, including funds withheld and premiums receivable, and the possibility that counterparties may default on their obligations to the Company. The risk of counterparty default is partially mitigated by the fact that any amount owed from a reinsurance

counterparty would be netted against any losses or acquisition costs the Company would pay in the future. The Company monitors the collectability of these balances on a regular basis.

21. Commitments and Contingencies

Investments

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

Financing

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

Litigation

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

22. Segment reporting

The determination of the Company's business segments is based on the manner in which management monitors the performance of its operations. The Company reports one operating segment, Property and Casualty Reinsurance. The Company has also identified a corporate function that includes the Company's investment income on capital, certain general and administrative expenses related to corporate activities, interest expense and income tax expense. The Company does not manage its assets by segment; accordingly, total assets are not allocated to the segments.

The following is a summary of the Company's operating segment results for the three and six months ended June 30, 2018 and 2017:

| | Three months ended June 30, 2018 | | |
|--|--|-----------|----------|
| | Property and Casualty Reinsurance | Corporate | Total |
| Revenues | | | |
| Gross premiums written | \$49,765 | \$— | \$49,765 |
| Gross premiums ceded | (3,479) | — | (3,479) |
| Net premiums written | 46,286 | — | 46,286 |
| Change in net unearned premium reserves | 95,207 | — | 95,207 |
| Net premiums earned | 141,493 | — | 141,493 |
| Expenses | | | |
| Loss and loss adjustment expenses incurred, net | 84,000 | — | 84,000 |
| Acquisition costs, net | 57,584 | — | 57,584 |
| General and administrative expenses | 4,963 | 4,733 | 9,696 |
| Total expenses | 146,547 | 4,733 | 151,280 |
| Net underwriting loss | (5,054) | n/a | n/a |
| Net investment income | 4,922 | 26,253 | 31,175 |
| Other expenses | (3,983) | — | (3,983) |
| Interest expense | — | (2,051) | (2,051) |
| Foreign exchange gains (1) | 8,847 | — | 8,847 |
| Income tax expense | — | (4,390) | (4,390) |
| Net income attributable to noncontrolling interests in related party | — | (209) | (209) |
| Segment income | \$4,732 | \$14,870 | |
| Net loss attributable to Third Point Re common shareholders | | | \$19,602 |

Property and Casualty Reinsurance - Underwriting Ratios (2):

| | | |
|--|-------|---|
| Loss ratio | 59.4 | % |
| Acquisition cost ratio | 40.7 | % |
| Composite ratio | 100.1 | % |
| General and administrative expense ratio | 3.5 | % |
| Combined ratio | 103.6 | % |

(1) Foreign exchange gains (losses) primarily result from the revaluation of foreign currency loss and loss adjustment expense reserves denominated in non-U.S. dollar. Non-U.S. dollar reinsurance assets, or balances held in trust accounts securing reinsurance liabilities generally offset reinsurance liabilities in the same non-U.S. dollar currencies resulting in minimal net exposure. As a result, the foreign exchange gains (losses) on loss and loss adjustment expense reserves in the period are offset by corresponding foreign exchange gains (losses) included in net investment income resulting from the revaluation of foreign currency reinsurance collateral held in trust accounts, which is presented as part of the Property and Casualty segment. In the three months ended March 31, 2018, the

Company modified the presentation of its operating segment to allocate foreign exchange gains (losses) to the Property and Casualty Reinsurance Segment to better align with the reinsurance activities that result in these foreign exchange gains and losses. These amounts had previously been presented as part of the Company's corporate function. Prior period segment results have been adjusted to conform to this presentation.

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

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| | Six months ended June 30, 2018 | | |
|--|--|-----------|------------|
| | Property and Casualty Reinsurance | Corporate | Total |
| Revenues | | | |
| Gross premiums written | \$428,125 | \$ — | \$428,125 |
| Gross premiums ceded | (18,125) | — | (18,125) |
| Net premiums written | 410,000 | — | 410,000 |
| Change in net unearned premium reserves | (126,021) | — | (126,021) |
| Net premiums earned | 283,979 | — | 283,979 |
| Expenses | | | |
| Loss and loss adjustment expenses incurred, net | 176,620 | — | 176,620 |
| Acquisition costs, net | 108,989 | — | 108,989 |
| General and administrative expenses | 9,787 | 9,390 | 19,177 |
| Total expenses | 295,396 | 9,390 | 304,786 |
| Net underwriting loss | (11,417) | n/a | n/a |
| Net investment income | 7,521 | 21,446 | 28,967 |
| Other expenses | (7,978) | — | (7,978) |
| Interest expense | — | (4,080) | (4,080) |
| Foreign exchange gains (1) | 2,236 | — | 2,236 |
| Income tax expense | — | (4,518) | (4,518) |
| Net income attributable to noncontrolling interests in related party | — | (219) | (219) |
| Segment income (loss) | \$(9,638) | \$ 3,239 | |
| Net loss attributable to Third Point Re common shareholders | | | \$(6,399) |

Property and Casualty Reinsurance - Underwriting Ratios (2):

| | | |
|--|-------|---|
| Loss ratio | 62.2 | % |
| Acquisition cost ratio | 38.4 | % |
| Composite ratio | 100.6 | % |
| General and administrative expense ratio | 3.4 | % |
| Combined ratio | 104.0 | % |

(1) Foreign exchange gains (losses) primarily result from the revaluation of foreign currency loss and loss adjustment expense reserves denominated in non-U.S. dollar. Non-U.S. dollar reinsurance assets, or balances held in trust accounts securing reinsurance liabilities generally offset reinsurance liabilities in the same non-U.S. dollar currencies resulting in minimal net exposure. As a result, the foreign exchange gains (losses) on loss and loss adjustment expense reserves in the period are offset by corresponding foreign exchange gains (losses) included in net investment income resulting from the revaluation of foreign currency reinsurance collateral held in trust accounts, which is presented as part of the Property and Casualty segment. In the three months ended March 31, 2018, the Company modified the presentation of its operating segment to allocate foreign exchange gains (losses) to the Property and Casualty Reinsurance Segment to better align with the reinsurance activities that result in these foreign exchange gains and losses. These amounts had previously been presented as part of the Company's corporate function. Prior period segment results have been adjusted to conform to this presentation.

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

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| | Three months ended June 30, 2017 | | |
|--|--|-----------|------------|
| | Property and Casualty Reinsurance | Corporate | Total |
| Revenues | | | |
| Gross premiums written | \$ 156,564 | \$— | \$ 156,564 |
| Gross premiums ceded | (1,425) | — | (1,425) |
| Net premiums written | 155,139 | — | 155,139 |
| Change in net unearned premium reserves | 18,419 | — | 18,419 |
| Net premiums earned | 173,558 | — | 173,558 |
| Expenses | | | |
| Loss and loss adjustment expenses incurred, net | 107,379 | — | 107,379 |
| Acquisition costs, net | 68,641 | — | 68,641 |
| General and administrative expenses | 9,649 | 5,365 | 15,014 |
| Total expenses | 185,669 | 5,365 | 191,034 |
| Net underwriting loss | (12,111) | n/a | n/a |
| Net investment income | 31,206 | 76,119 | 107,325 |
| Other expenses | (2,105) | — | (2,105) |
| Interest expense | — | (2,051) | (2,051) |
| Foreign exchange losses (1) | (4,781) | — | (4,781) |
| Income tax expense | — | (5,307) | (5,307) |
| Net income attributable to noncontrolling interests in related party | — | (1,027) | (1,027) |
| Segment income | \$ 12,209 | \$ 62,369 | |
| Net income available to Third Point Re common shareholders | | | \$ 74,578 |

Property and Casualty Reinsurance - Underwriting Ratios (2):

| | | |
|--|-------|---|
| Loss ratio | 61.9 | % |
| Acquisition cost ratio | 39.5 | % |
| Composite ratio | 101.4 | % |
| General and administrative expense ratio | 5.6 | % |
| Combined ratio | 107.0 | % |

(1) Foreign exchange gains (losses) primarily result from the revaluation of foreign currency loss and loss adjustment expense reserves denominated in non-U.S. dollar. Non-U.S. dollar reinsurance assets, or balances held in trust accounts securing reinsurance liabilities generally offset reinsurance liabilities in the same non-U.S. dollar currencies resulting in minimal net exposure. As a result, the foreign exchange gains (losses) on loss and loss adjustment expense reserves in the period are offset by corresponding foreign exchange gains (losses) included in net investment income resulting from the revaluation of foreign currency reinsurance collateral held in trust accounts, which is presented as part of the Property and Casualty segment. In the three months ended March 31, 2018, the Company modified the presentation of its operating segment to allocate foreign exchange gains (losses) to the Property and Casualty Reinsurance Segment to better align with the reinsurance activities that result in these foreign exchange gains and losses. These amounts had previously been presented as part of the Company's corporate function. Prior period segment results have been adjusted to conform to this presentation.

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

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| | Six months ended June 30, 2017 | | |
|--|--|-----------|-----------|
| | Property and Casualty Reinsurance | Corporate | Total |
| Revenues | | | |
| Gross premiums written | \$302,918 | \$— | \$302,918 |
| Gross premiums ceded | (2,550) | — | (2,550) |
| Net premiums written | 300,368 | — | 300,368 |
| Change in net unearned premium reserves | 11,199 | — | 11,199 |
| Net premiums earned | 311,567 | — | 311,567 |
| Expenses | | | |
| Loss and loss adjustment expenses incurred, net | 193,274 | — | 193,274 |
| Acquisition costs, net | 123,093 | — | 123,093 |
| General and administrative expenses | 15,961 | 9,625 | 25,586 |
| Total expenses | 332,328 | 9,625 | 341,953 |
| Net underwriting loss | (20,761) | n/a | n/a |
| Net investment income | 67,326 | 168,509 | 235,835 |
| Other expenses | (5,006) | — | (5,006) |
| Interest expense | — | (4,077) | (4,077) |
| Foreign exchange losses (1) | (4,796) | — | (4,796) |
| Income tax expense | — | (10,605) | (10,605) |
| Net income attributable to noncontrolling interests in related party | — | (2,201) | (2,201) |
| Segment income | \$36,763 | \$142,001 | |
| Net income available to Third Point Re common shareholders | | | \$178,764 |

Property and Casualty Reinsurance - Underwriting Ratios (2):

| | | |
|--|-------|---|
| Loss ratio | 62.0 | % |
| Acquisition cost ratio | 39.5 | % |
| Composite ratio | 101.5 | % |
| General and administrative expense ratio | 5.1 | % |
| Combined ratio | 106.6 | % |

(1) Foreign exchange gains (losses) primarily result from the revaluation of foreign currency loss and loss adjustment expense reserves denominated in non-U.S. dollar. Non-U.S. dollar reinsurance assets, or balances held in trust accounts securing reinsurance liabilities generally offset reinsurance liabilities in the same non-U.S. dollar currencies resulting in minimal net exposure. As a result, the foreign exchange gains (losses) on loss and loss adjustment expense reserves in the period are offset by corresponding foreign exchange gains (losses) included in net investment income resulting from the revaluation of foreign currency reinsurance collateral held in trust accounts, which is presented as part of the Property and Casualty segment. In the three months ended March 31, 2018, the Company modified the presentation of its operating segment to allocate foreign exchange gains (losses) to the Property and Casualty Reinsurance Segment to better align with the reinsurance activities that result in these foreign exchange gains and losses. These amounts had previously been presented as part of the Company's corporate function. Prior period segment results have been adjusted to conform to this presentation.

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

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The following table lists the number of contracts that individually contributed more than 10% of total gross premiums written for the three and six months ended June 30, 2018 and 2017 as a percentage of total gross premiums written in the relevant period:

| | Three months ended | | Six months ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Largest contract | 32.8 % | 65.9 % | 21.4 % | 34.0 % |
| Second largest contract | 15.4 % | 12.9 % | n/a | 17.9 % |
| Third largest contract | 13.8 % | n/a | n/a | n/a |
| Total for contracts contributing greater than 10% each | 62.0 % | 78.8 % | 21.4 % | 51.9 % |
| Total for contracts contributing less than 10% each | 38.0 % | 21.2 % | 78.6 % | 48.1 % |
| | 100.0% | 100.0% | 100.0% | 100.0% |

The following table provides a breakdown of the Company's gross premiums written by line of business for the three and six months ended June 30, 2018 and 2017:

| | Three months ended | | | Six months ended | | | | |
|---|--------------------|---------------|------------|------------------|---------------|--------|------------|---------|
| | June 30, 2018 | June 30, 2017 | | June 30, 2018 | June 30, 2017 | | | |
| Property | \$1,660 | 3.3 % | \$(8,827) | (5.6)% | \$2,029 | 0.5 % | \$(8,815) | (2.9)% |
| Casualty | 43,510 | 87.4 % | 15,008 | 9.6 % | 196,730 | 46.0 % | 102,213 | 33.7 % |
| Specialty | 254 | 0.6 % | 41,032 | 26.2 % | 225,025 | 52.5 % | 100,169 | 33.1 % |
| Total prospective reinsurance contracts | 45,424 | 91.3 % | 47,213 | 30.2 % | 423,784 | 99.0 % | 193,567 | 63.9 % |
| Retroactive reinsurance contracts | 4,341 | 8.7 % | 109,351 | 69.8 % | 4,341 | 1.0 % | 109,351 | 36.1 % |
| | \$49,765 | 100.0% | \$156,564 | 100.0 % | \$428,125 | 100.0% | \$302,918 | 100.0 % |

Substantially all of the Company's business is sourced through reinsurance brokers. The following table sets forth the Company's premiums written by source that individually contributed more than 10% of total gross premiums written for the three and six months ended June 30, 2018 and 2017:

| | Three months ended | | | Six months ended | | | | |
|-----------------------|--------------------|---------------|-----------|------------------|---------------|--------|-----------|--------|
| | June 30, 2018 | June 30, 2017 | | June 30, 2018 | June 30, 2017 | | | |
| Largest broker | \$19,858 | 39.9 % | \$107,612 | 68.7 % | \$165,582 | 38.7 % | \$107,612 | 35.5 % |
| Second largest broker | n/a | n/a | 22,448 | 14.3 % | 159,413 | 37.2 % | 73,499 | 24.3 % |
| Third largest broker | n/a | n/a | n/a | n/a | 52,982 | 12.4 % | 35,269 | 11.6 % |
| Fourth largest broker | n/a | n/a | n/a | n/a | n/a | n/a | 31,853 | 10.5 % |
| Other | 29,907 | 60.1 % | 26,504 | 17.0 % | 50,148 | 11.7 % | 54,685 | 18.1 % |
| | \$49,765 | 100.0% | \$156,564 | 100.0% | \$428,125 | 100.0% | \$302,918 | 100.0% |

The following table provides a breakdown of the Company's gross premiums written by domicile of the ceding companies for the three and six months ended June 30, 2018 and 2017:

| | Three months ended | | | Six months ended | | | | |
|----------------|--------------------|---------------|-----------|------------------|---------------|--------|-----------|--------|
| | June 30, 2018 | June 30, 2017 | | June 30, 2018 | June 30, 2017 | | | |
| United States | \$31,400 | 63.1 % | \$1,340 | 0.8 % | \$264,271 | 61.7 % | \$43,769 | 14.4 % |
| Bermuda | 3,357 | 6.7 % | — | — % | 73,710 | 17.2 % | 54,075 | 17.9 % |
| United Kingdom | 15,008 | 30.2 % | 150,744 | 96.3 % | 66,993 | 15.7 % | 200,594 | 66.2 % |
| Other | — | — % | 4,480 | 2.9 % | 23,151 | 5.4 % | 4,480 | 1.5 % |
| | \$49,765 | 100.0% | \$156,564 | 100.0% | \$428,125 | 100.0% | \$302,918 | 100.0% |

23. Subsequent events

Change in Investment Management 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 (“LPA”) of Third Point Enhanced LP (“TP Fund”) with Third Point Advisors LLC (“TP GP”) and others, effective August 31, 2018. In accordance with the LPA, TP GP will serve as the general partner of TP Fund. 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 will transfer assets and related liabilities (other than certain collateral assets) from their separate accounts to TP Fund, and TP Fund will issue limited partner interests to the TPRE Limited Partners proportionate to and based on the net asset value of the assets and related liabilities transferred by each such entity on the applicable transfer date. Certain collateral assets consisting of debt securities and restricted cash will not be transferred to TP Fund. Such collateral assets will be managed by Third Point LLC under a separate investment management agreement. Third Point Re BDA and Third Point Re USA will begin transferring the assets and related liabilities from their separate accounts to TP Fund on August 31, 2018, and substantially all of the assets are expected to be transferred by September 30, 2018. 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 “Existing Agreements”) will terminate on the date that all assets and related liabilities to be transferred to TP Fund under the Subscription Agreement have been transferred to TP Fund. Pursuant to an Investment Management Agreement between Third Point LLC and TP Fund dated July 31, 2018 (the “TP Fund IMA”), Third Point LLC will be the investment manager for TP Fund. The TP Fund IMA will continue until terminated by any party thereto upon 90 days’ prior written notice to the other party.

The Company expects its 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 compared to what would have been expected under the separate accounts managed under the Existing Agreements, assuming similar underlying investment portfolio returns and exposure levels. However, there can be no assurance of such results.

As a result of the change described above, the Company’s investments in TP Fund will be presented on the condensed consolidated balance sheets as an investment in a related party investment fund. The Company does not expect significant changes to the presentation of its condensed consolidated statements of income as a result of this change. If the LPA had been in effect on June 30, 2018, we anticipate that the Company’s selected consolidated balance sheets data as of June 30, 2018 would have appeared as follows:

| | June 30, 2018 | |
|---|------------------------------|---|
| | As previously reported | Pro-forma under new investment structure |
| Selected Consolidated Balance Sheets Data: | | |
| Total investments in securities ⁽¹⁾ | \$3,098,125 | \$1,991,129 |
| Total assets | 4,909,619 | 3,504,693 |
| Total liabilities | 3,305,530 | 1,912,939 |
| Shareholders’ equity attributable to Third Point Re common shareholders | 1,591,754 | 1,591,754 |
| Total shareholders’ equity | \$1,596,910 | \$1,591,754 |

(1) Total investments in securities included in “Pro-forma under new investment structure” include the Company’s investment in related party investment fund, Third Point Enhanced LP, and collateral assets consisting of debt securities.

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 an Unsecured Revolving Credit and Letter of Credit Facility Agreement (the “Credit Agreement”) with SunTrust Bank, SunTrust Robinson Humphrey, Inc., RBC Capital Markets and ING Capital.

The Credit Agreement provides for the issuance of up to \$200.0 million of letters of credit to support obligations in connection with the reinsurance business of Third Point Re BDA and Third Point Re USA. Letters of credit fees are payable on account of each letter of credit issued under the unsecured facility at a rate of 1.50% per annum and the commitment fee is 0.20% per annum. The Credit Agreement expires on July 30, 2019.

The Credit Agreement contains covenants that include, among other things:

- (i) the requirement that the Company initially maintain a minimum level of consolidated net worth of at least \$1,114.2 million,
- (ii) the requirement that the Company maintain at all times a consolidated total debt to consolidated total capital ratio not greater than 0.35:1.00, and
- (iii) the requirement that Third Point Re BDA and Third Point Re USA both maintain a financial strength rating of at least “A-” through November 30, 2018 and “B++” thereafter by A.M. Best.

In addition, the Credit Agreement contains customary negative covenants applicable to the Company and its subsidiaries, including limitations on the ability to pay dividends and other payments in respect of equity interests at any time that the Company is otherwise in default with respect to certain provisions under the respective Credit Agreement, limitations on the ability to incur liens, sell assets, merge or consolidate with others, enter into transactions with affiliates, and limitations on the ability of its subsidiaries to incur indebtedness. The Credit Agreement also contains customary affirmative covenants, representations and warranties and events of default for credit facilities of its type.

24. Supplemental guarantor information

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

The following information sets forth condensed consolidating balance sheets as of June 30, 2018 and December 31, 2017, condensed consolidating statements of income for the three and six months ended June 30, 2018 and 2017 and condensed consolidating statements of cash flows for the six months ended June 30, 2018 and 2017 for Third Point Re, TPRUSA and the non-guarantor subsidiaries of Third Point Re. Investments in subsidiaries are accounted for on the equity method; accordingly, entries necessary to consolidate the parent guarantor, TPRUSA and all other subsidiaries are reflected in the eliminations column.

CONDENSED CONSOLIDATING BALANCE SHEET

As of June 30, 2018

| | Third Point Re | TPRUSA | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|-------------------|------------|-------------------------------|---------------|--------------|
| Assets | | | | | |
| Equity securities | \$— | \$— | \$ 2,427,768 | \$— | \$ 2,427,768 |
| Debt securities | — | — | 617,913 | — | 617,913 |
| Other investments | — | — | 52,444 | — | 52,444 |
| Total investments in securities | — | — | 3,098,125 | — | 3,098,125 |
| Cash and cash equivalents | 1 | 190 | 17,260 | — | 17,451 |
| Restricted cash and cash equivalents | — | — | 569,968 | — | 569,968 |
| Investment in subsidiaries | 1,630,308 | 271,249 | 165,315 | (2,066,872) | — |
| Due from brokers | — | — | 258,764 | — | 258,764 |
| Derivative assets, at fair value | — | — | 34,738 | — | 34,738 |
| Interest and dividends receivable | — | — | 4,385 | — | 4,385 |
| Reinsurance balances receivable | — | — | 631,952 | — | 631,952 |
| Deferred acquisition costs, net | — | — | 264,408 | — | 264,408 |
| Unearned premiums ceded | — | — | 17,606 | — | 17,606 |
| Loss and loss adjustment expenses recoverable | — | — | 1,414 | — | 1,414 |
| Amounts due from (to) affiliates | (37,588) | 77 | 37,511 | — | — |
| Other assets | 254 | — | 10,554 | — | 10,808 |
| Total assets | \$1,592,975 | \$271,516 | \$ 5,112,000 | \$(2,066,872) | \$ 4,909,619 |
| Liabilities | | | | | |
| Accounts payable and accrued expenses (1) | \$1,221 | \$(9,663) | \$ 20,486 | \$— | \$ 12,044 |
| Reinsurance balances payable | — | — | 74,013 | — | 74,013 |
| Deposit liabilities | — | — | 129,700 | — | 129,700 |
| Unearned premium reserves | — | — | 792,096 | — | 792,096 |
| Loss and loss adjustment expense reserves | — | — | 791,313 | — | 791,313 |
| Securities sold, not yet purchased, at fair value | — | — | 443,216 | — | 443,216 |
| Due to brokers | — | — | 926,588 | — | 926,588 |
| Derivative liabilities, at fair value | — | — | 12,380 | — | 12,380 |
| Performance fee payable to related party | — | — | 4,641 | — | 4,641 |
| Interest and dividends payable | — | 3,022 | 2,696 | — | 5,718 |
| Senior notes payable, net of deferred costs | — | 113,821 | — | — | 113,821 |
| Total liabilities | 1,221 | 107,180 | 3,197,129 | — | 3,305,530 |
| Redeemable noncontrolling interests in related party | — | — | 7,179 | — | 7,179 |
| Shareholders' equity | | | | | |
| Common shares | 9,963 | — | 1,239 | (1,239) | 9,963 |
| Additional paid-in capital | 994,170 | 165,535 | 1,534,496 | (1,700,031) | 994,170 |
| Retained earnings (deficit) | 587,621 | (1,199) | 366,801 | (365,602) | 587,621 |
| Shareholders' equity attributable to Third Point Re common shareholders | 1,591,754 | 164,336 | 1,902,536 | (2,066,872) | 1,591,754 |
| Noncontrolling interests in related party | — | — | 5,156 | — | 5,156 |
| Total shareholders' equity | 1,591,754 | 164,336 | 1,907,692 | (2,066,872) | 1,596,910 |
| Total liabilities, noncontrolling interests and shareholders' equity | \$1,592,975 | \$271,516 | \$ 5,112,000 | \$(2,066,872) | \$ 4,909,619 |

(1) Negative balance of \$9.7 million represents net deferred tax assets that are offset by net deferred tax liabilities in Third Point Re USA of \$10.0 million, resulting in a net liability position as of June 30, 2018.

CONDENSED CONSOLIDATING BALANCE SHEET

As of December 31, 2017

| | Third Point Re | TPRUSA | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|-------------------|------------|-------------------------------|---------------|--------------|
| Assets | | | | | |
| Equity securities | \$— | \$— | \$ 2,283,050 | \$— | \$2,283,050 |
| Debt securities | — | — | 675,158 | — | 675,158 |
| Other investments | — | — | 37,731 | — | 37,731 |
| Total investments in securities | — | — | 2,995,939 | — | 2,995,939 |
| Cash and cash equivalents | 9 | 199 | 7,989 | — | 8,197 |
| Restricted cash and cash equivalents | — | — | 541,136 | — | 541,136 |
| Investment in subsidiaries | 1,657,467 | 274,272 | 164,909 | (2,096,648) | — |
| Due from brokers | — | — | 305,093 | — | 305,093 |
| Derivative assets, at fair value | — | — | 73,372 | — | 73,372 |
| Interest and dividends receivable | — | — | 3,774 | — | 3,774 |
| Reinsurance balances receivable | — | — | 476,008 | — | 476,008 |
| Deferred acquisition costs, net | — | — | 258,793 | — | 258,793 |
| Unearned premiums ceded | — | — | 1,049 | — | 1,049 |
| Loss and loss adjustment expenses recoverable | — | — | 1,113 | — | 1,113 |
| Amounts due from (to) affiliates | (1,288) | 412 | 876 | — | — |
| Other assets | 664 | — | 6,656 | — | 7,320 |
| Total assets | \$1,656,852 | \$274,883 | \$ 4,836,707 | \$(2,096,648) | \$4,671,794 |
| Liabilities | | | | | |
| Accounts payable and accrued expenses (1) | \$763 | \$(8,805) | \$ 42,674 | \$— | \$ 34,632 |
| Reinsurance balances payable | — | — | 41,614 | — | 41,614 |
| Deposit liabilities | — | — | 129,133 | — | 129,133 |
| Unearned premium reserves | — | — | 649,518 | — | 649,518 |
| Loss and loss adjustment expense reserves | — | — | 720,570 | — | 720,570 |
| Securities sold, not yet purchased, at fair value | — | — | 394,278 | — | 394,278 |
| Securities sold under an agreement to repurchase | — | — | 29,618 | — | 29,618 |
| Due to brokers | — | — | 770,205 | — | 770,205 |
| Derivative liabilities, at fair value | — | — | 14,503 | — | 14,503 |
| Interest and dividends payable | — | 3,055 | 1,220 | — | 4,275 |
| Senior notes payable, net of deferred costs | — | 113,733 | — | — | 113,733 |
| Total liabilities | 763 | 107,983 | 2,793,333 | — | 2,902,079 |
| Redeemable noncontrolling interests in related party | — | — | 108,219 | — | 108,219 |
| Shareholders' equity | | | | | |
| Common shares | 10,723 | — | 1,250 | (1,250) | 10,723 |
| Treasury shares | (48,253) | — | — | — | (48,253) |
| Additional paid-in capital | 1,099,599 | 165,097 | 1,531,770 | (1,696,867) | 1,099,599 |
| Retained earnings (deficit) | 594,020 | 1,803 | 396,728 | (398,531) | 594,020 |
| Shareholders' equity attributable to Third Point Re common shareholders | 1,656,089 | 166,900 | 1,929,748 | (2,096,648) | 1,656,089 |
| Noncontrolling interests in related party | — | — | 5,407 | — | 5,407 |
| Total shareholders' equity | 1,656,089 | 166,900 | 1,935,155 | (2,096,648) | 1,661,496 |
| Total liabilities, noncontrolling interests and shareholders' equity | \$1,656,852 | \$274,883 | \$ 4,836,707 | \$(2,096,648) | \$4,671,794 |

(1) Negative balance of \$8.8 million represents net deferred tax assets that are offset by net deferred tax liabilities in Third Point Re USA of \$9.9 million, resulting in a net liability position as of December 31, 2017.

CONDENSED CONSOLIDATING STATEMENTS OF INCOME (LOSS)

| For the three months ended June 30, 2018 | Third Point Re | TPRUSA | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|----------------|--------|----------------------------|--------------|--------------|
| Revenues | | | | | |
| Gross premiums written | \$— | \$— | \$ 49,765 | \$— | \$ 49,765 |
| Gross premiums ceded | — | — | (3,479 |) — | (3,479) |
| Net premiums written | — | — | 46,286 | — | 46,286 |
| Change in net unearned premium reserves | — | — | 95,207 | — | 95,207 |
| Net premiums earned | — | — | 141,493 | — | 141,493 |
| Net investment income | — | — | 31,175 | — | 31,175 |
| Equity in earnings (losses) of subsidiaries | 21,319 | 1,847 | (13 |) (23,153 |) — |
| Total revenues | 21,319 | 1,847 | 172,655 | (23,153 |) 172,668 |
| Expenses | | | | | |
| Loss and loss adjustment expenses incurred, net | — | — | 84,000 | — | 84,000 |
| Acquisition costs, net | — | — | 57,584 | — | 57,584 |
| General and administrative expenses | 1,717 | 19 | 7,960 | — | 9,696 |
| Other expenses | — | — | 3,983 | — | 3,983 |
| Interest expense | — | 2,051 | — | — | 2,051 |
| Foreign exchange gains | — | — | (8,847 |) — | (8,847) |
| Total expenses | 1,717 | 2,070 | 144,680 | — | 148,467 |
| Income (loss) before income tax (expense) benefit | 19,602 | (223 |) 27,975 | (23,153 |) 24,201 |
| Income tax (expense) benefit | — | 435 | (4,825 |) — | (4,390) |
| Net income | 19,602 | 212 | 23,150 | (23,153 |) 19,811 |
| Net income attributable to noncontrolling interests in related party | — | — | (209 |) — | (209) |
| Net income available to Third Point Re common shareholders | \$ 19,602 | \$ 212 | \$ 22,941 | \$ (23,153 |) \$ 19,602 |

| For the six months ended June 30, 2018 | Third Point Re | TPRUSA | Non-Guarantor Subsidiaries | Eliminations | Consolidated | |
|---|----------------|----------|----------------------------|--------------|--------------|---|
| Revenues | | | | | | |
| Gross premiums written | \$— | \$— | \$ 428,125 | \$— | \$ 428,125 | |
| Gross premiums ceded | — | — | (18,125 |) — | (18,125) | |
| Net premiums written | — | — | 410,000 | — | 410,000 | |
| Change in net unearned premium reserves | — | — | (126,021 |) — | (126,021) | |
| Net premiums earned | — | — | 283,979 | — | 283,979 | |
| Net investment income | — | — | 28,967 | — | 28,967 | |
| Equity in earnings (losses) of subsidiaries | (3,038 |) 239 | (30 |) 2,829 | — | |
| Total revenues | (3,038 |) 239 | 312,916 | 2,829 | 312,946 | |
| Expenses | | | | | | |
| Loss and loss adjustment expenses incurred, net | — | — | 176,620 | — | 176,620 | |
| Acquisition costs, net | — | — | 108,989 | — | 108,989 | |
| General and administrative expenses | 3,361 | 22 | 15,794 | — | 19,177 | |
| Other expenses | — | — | 7,978 | — | 7,978 | |
| Interest expense | — | 4,080 | — | — | 4,080 | |
| Foreign exchange gains | — | — | (2,236 |) — | (2,236) | |
| Total expenses | 3,361 | 4,102 | 307,145 | — | 314,608 | |
| Income (loss) before income tax (expense) benefit | (6,399 |) (3,863 |) 5,771 | 2,829 | (1,662 |) |

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| | | | | | | |
|--|----------|------------|----------|----------|----------|---|
| Income tax (expense) benefit | — | 861 | (5,379 |) — | (4,518 |) |
| Net income (loss) | (6,399 |) (3,002 |) 392 | 2,829 | (6,180 |) |
| Net income attributable to noncontrolling interests in related party | — | — | (219 |) — | (219 |) |
| Net income (loss) available (attributable) to Third Point Re common shareholders | \$(6,399 |) \$(3,002 |) \$ 173 | \$ 2,829 | \$(6,399 |) |

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CONDENSED CONSOLIDATING STATEMENTS OF INCOME

| For the three months ended June 30, 2017 | Third Point Re | TPRUSA | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|----------------|----------|----------------------------|--------------|--------------|
| Revenues | | | | | |
| Gross premiums written | \$— | \$— | \$ 156,564 | \$— | \$ 156,564 |
| Gross premiums ceded | — | — | (1,425 |) — | (1,425) |
| Net premiums written | — | — | 155,139 | — | 155,139 |
| Change in net unearned premium reserves | — | — | 18,419 | — | 18,419 |
| Net premiums earned | — | — | 173,558 | — | 173,558 |
| Net investment income | — | — | 107,325 | — | 107,325 |
| Equity in earnings (losses) of subsidiaries | 75,843 | 4,843 | (10 |) (80,676 |) — |
| Total revenues | 75,843 | 4,843 | 280,873 | (80,676 |) 280,883 |
| Expenses | | | | | |
| Loss and loss adjustment expenses incurred, net | — | — | 107,379 | — | 107,379 |
| Acquisition costs, net | — | — | 68,641 | — | 68,641 |
| General and administrative expenses | 1,265 | 12 | 13,737 | — | 15,014 |
| Other expenses | — | — | 2,105 | — | 2,105 |
| Interest expense | — | 2,051 | — | — | 2,051 |
| Foreign exchange losses | — | — | 4,781 | — | 4,781 |
| Total expenses | 1,265 | 2,063 | 196,643 | — | 199,971 |
| Income before income tax (expense) benefit | 74,578 | 2,780 | 84,230 | (80,676 |) 80,912 |
| Income tax (expense) benefit | — | 722 | (6,029 |) — | (5,307) |
| Net income | 74,578 | 3,502 | 78,201 | (80,676 |) 75,605 |
| Net income attributable to noncontrolling interests in related party | — | — | (1,027 |) — | (1,027) |
| Net income available to Third Point Re common shareholders | \$74,578 | \$ 3,502 | \$ 77,174 | \$(80,676 |) \$ 74,578 |
| | | | | | |
| For the six months ended June 30, 2017 | Third Point Re | TPRUSA | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Revenues | | | | | |
| Gross premiums written | \$— | \$— | \$ 302,918 | \$— | \$ 302,918 |
| Gross premiums ceded | — | — | (2,550 |) — | (2,550) |
| Net premiums written | — | — | 300,368 | — | 300,368 |
| Change in net unearned premium reserves | — | — | 11,199 | — | 11,199 |
| Net premiums earned | — | — | 311,567 | — | 311,567 |
| Net investment income | — | — | 235,835 | — | 235,835 |
| Equity in earnings (losses) of subsidiaries | 181,213 | 13,832 | (5 |) (195,040 |) — |
| Total revenues | 181,213 | 13,832 | 547,397 | (195,040 |) 547,402 |
| Expenses | | | | | |
| Loss and loss adjustment expenses incurred, net | — | — | 193,274 | — | 193,274 |
| Acquisition costs, net | — | — | 123,093 | — | 123,093 |
| General and administrative expenses | 2,449 | 20 | 23,117 | — | 25,586 |
| Other expenses | — | — | 5,006 | — | 5,006 |
| Interest expense | — | 4,077 | — | — | 4,077 |
| Foreign exchange losses | — | — | 4,796 | — | 4,796 |
| Total expenses | 2,449 | 4,097 | 349,286 | — | 355,832 |
| Income before income tax (expense) benefit | 178,764 | 9,735 | 198,111 | (195,040 |) 191,570 |

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| | | | | | | |
|--|-----------|-----------|------------|-------------|--------------|---|
| Income tax (expense) benefit | — | 1,434 | (12,039 |) — | (10,605 |) |
| Net income | 178,764 | 11,169 | 186,072 | (195,040 |) 180,965 | |
| Net income attributable to noncontrolling interests in related party | — | — | (2,201 |) — | (2,201 |) |
| Net income available to Third Point Re common shareholders | \$178,764 | \$ 11,169 | \$ 183,871 | \$ (195,040 |) \$ 178,764 | |

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

| For the six months ended June 30, 2018 | Third Point Re | TPRUSA | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|----------------|-------------|----------------------------|--------------|--------------|
| Operating activities | | | | | |
| Net income (loss) | \$ (6,399) | \$ (3,002) | \$ 392 | \$ 2,829 | \$ (6,180) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | | | |
| Equity in (earnings) losses of subsidiaries | 3,038 | (239) | 30 | (2,829) | — |
| Share compensation expense | 279 | — | 2,279 | — | 2,558 |
| Net interest expense on deposit liabilities | — | — | 2,449 | — | 2,449 |
| Net unrealized loss on investments and derivatives | — | — | 95,513 | — | 95,513 |
| Net realized gain on investments and derivatives | — | — | (130,500) | — | (130,500) |
| Net foreign exchange gains | — | — | (2,236) | — | (2,236) |
| Amortization of premium and accretion of discount, net | — | 88 | 2,825 | — | 2,913 |
| Changes in assets and liabilities: | | | | | |
| Reinsurance balances receivable | — | — | (157,498) | — | (157,498) |
| Deferred acquisition costs, net | — | — | (5,615) | — | (5,615) |
| Unearned premiums ceded | — | — | (16,557) | — | (16,557) |
| Loss and loss adjustment expenses recoverable | — | — | (301) | — | (301) |
| Other assets | 410 | — | (3,947) | — | (3,537) |
| Interest and dividends receivable, net | — | (33) | 865 | — | 832 |
| Unearned premium reserves | — | — | 142,578 | — | 142,578 |
| Loss and loss adjustment expense reserves | — | — | 74,655 | — | 74,655 |
| Accounts payable and accrued expenses | 458 | (858) | (22,164) | — | (22,564) |
| Reinsurance balances payable | — | — | 32,208 | — | 32,208 |
| Performance fees payable to related party | — | — | 4,641 | — | 4,641 |
| Amounts due from (to) affiliates | 36,300 | 335 | (36,635) | — | — |
| Net cash provided by (used in) operating activities | 34,086 | (3,709) | (17,018) | — | 13,359 |
| Investing activities | | | | | |
| Purchases of investments | — | — | (2,180,138) | — | (2,180,138) |
| Proceeds from sales of investments | — | — | 2,156,754 | — | 2,156,754 |
| Purchases of investments to cover short sales | — | — | (590,113) | — | (590,113) |
| Proceeds from short sales of investments | — | — | 628,913 | — | 628,913 |
| Change in due to/from brokers, net | — | — | 202,712 | — | 202,712 |
| Decrease in securities sold under an agreement to repurchase | — | — | (29,618) | — | (29,618) |
| Net cash provided by investing activities | — | — | 188,510 | — | 188,510 |
| Financing activities | | | | | |
| Proceeds from issuance of Third Point Re common shares, net of costs | — | — | — | — | — |
| Taxes paid on withholding shares | (74) | — | — | — | (74) |
| Purchases of Third Point Re common shares under share repurchase program | (60,420) | — | — | — | (60,420) |
| Decrease in deposit liabilities, net | — | — | (1,779) | — | (1,779) |
| Change in total noncontrolling interests in related party, net | — | — | (101,510) | — | (101,510) |
| Dividend received by (paid to) parent | 26,400 | 3,700 | (30,100) | — | — |
| Net cash provided by (used in) financing activities | (34,094) | 3,700 | (133,389) | — | (163,783) |
| | (8) | (9) | 38,103 | — | 38,086 |

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Net increase (decrease) in cash, cash equivalents and restricted cash

| | | | | | |
|---|-----|-------|------------|------|------------|
| Cash, cash equivalents and restricted cash at beginning of period | 9 | 199 | 549,125 | — | 549,333 |
| Cash, cash equivalents and restricted cash at end of period | \$1 | \$190 | \$ 587,228 | \$ — | \$ 587,419 |

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

| For the six months ended June 30, 2017 | Third Point Re | TPRUSA | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|----------------|----------|----------------------------|--------------|--------------|
| Operating activities | | | | | |
| Net income | \$178,764 | \$11,169 | \$186,072 | \$(195,040) | \$180,965 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | | |
| Equity in (earnings) losses of subsidiaries | (181,213) | (13,832) | 5 | 195,040 | — |
| Share compensation expense | 73 | — | 3,301 | — | 3,374 |
| Net interest expense on deposit liabilities | — | — | 312 | — | 312 |
| Net unrealized gain on investments and derivatives | — | — | (128,168) | — | (128,168) |
| Net realized gain on investments and derivatives | — | — | (154,504) | — | (154,504) |
| Net foreign exchange losses | — | — | 4,796 | — | 4,796 |
| Amortization of premium and accretion of discount, net | — | 88 | (210) | — | (122) |
| Changes in assets and liabilities: | | | | | |
| Reinsurance balances receivable | — | — | (85,733) | — | (85,733) |
| Deferred acquisition costs, net | — | — | 18,425 | — | 18,425 |
| Unearned premiums ceded | — | — | (1,938) | — | (1,938) |
| Loss and loss adjustment expenses recoverable | — | — | (1,712) | — | (1,712) |
| Other assets | 302 | (1,663) | 7,519 | — | 6,158 |
| Interest and dividends receivable, net | — | (35) | 2,988 | — | 2,953 |
| Unearned premium reserves | — | — | (9,261) | — | (9,261) |
| Loss and loss adjustment expense reserves | — | — | 63,769 | — | 63,769 |
| Accounts payable and accrued expenses | 67 | — | 7,482 | — | 7,549 |
| Reinsurance balances payable | — | — | 22,237 | — | 22,237 |
| Performance fees payable to related party | — | — | 53,455 | — | 53,455 |
| Amounts due from (to) affiliates | 40,523 | (3,831) | (36,692) | — | — |
| Net cash provided by (used in) operating activities | 38,516 | (8,104) | (47,857) | — | (17,445) |
| Investing activities | | | | | |
| Purchases of investments | — | — | (1,712,929) | — | (1,712,929) |
| Proceeds from sales of investments | — | — | 1,966,027 | — | 1,966,027 |
| Purchases of investments to cover short sales | — | — | (306,237) | — | (306,237) |
| Proceeds from short sales of investments | — | — | 462,066 | — | 462,066 |
| Change in due to/from brokers, net | — | — | (261,994) | — | (261,994) |
| Net cash provided by investing activities | — | — | 146,933 | — | 146,933 |
| Financing activities | | | | | |
| Proceeds from issuance of Third Point Re common shares, net of costs | 998 | — | — | — | 998 |
| Purchases of Third Point Re common shares under share repurchase program | (40,864) | — | — | — | (40,864) |
| Decrease in deposit liabilities, net | — | — | (124) | — | (124) |
| Change in total noncontrolling interests in related party, net | — | — | (18,066) | — | (18,066) |
| Dividend received by (paid to) parent | — | 8,300 | (8,300) | — | — |
| Net cash provided by (used in) financing activities | (39,866) | 8,300 | (26,490) | — | (58,056) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (1,350) | 196 | 72,586 | — | 71,432 |
| | 1,629 | 79 | 307,183 | — | 308,891 |

| | | | | | |
|---|-------|-------|------------|-----|------------|
| Cash, cash equivalents and restricted cash at beginning of period | | | | | |
| Cash, cash equivalents and restricted cash at end of period | \$279 | \$275 | \$ 379,769 | \$— | \$ 380,323 |

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

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

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

Special Note Regarding Forward-Looking Statements

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

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

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

• losses resulting from significant investment positions;

• credit risk associated with the default on obligations of counterparties;

• ineffective investment risk management systems;

• fluctuations in the market value of our investment portfolio;

• trading restrictions being placed on our investments;

• limited termination provisions in our investment management agreements;

• limited liquidity and lack of valuation data on our investments;

• U.S. and global economic downturns;

- specific characteristics of investments in mortgage-backed securities and other asset-backed securities, in securities of issues based outside the U.S., and in special situation or distressed companies;

• loss of key employees at Third Point LLC;

• Third Point LLC's compensation arrangements may incentivize investments that are risky or speculative;

• increased regulation or scrutiny of alternative investment advisers affecting our reputation;

• suspension or revocation of our reinsurance licenses;

• potentially being deemed an investment company under U.S. federal securities law;

• failure of reinsurance subsidiaries to meet minimum capital and surplus requirements;

• changes in Bermuda or other law and regulation that may have an adverse impact on our operations;

• Third Point Re and/or Third Point Re BDA potentially becoming subject to U.S. federal income taxation;

• potential characterization of Third Point Re and/or Third Point Re BDA as a passive foreign investment company;

• subjection of our affiliates to the base erosion and anti-abuse tax;

• potentially becoming subject to U.S. withholding and information reporting requirements under the Foreign Account Tax Compliance Act;

• risks associated with the expected change in our investment management structure; and

• other risks and factors listed under "Risk Factors" in our most recent Annual Report on Form 10-K, as updated by this Quarterly Report on Form 10-Q, and other periodic reports filed with the Securities and Exchange Commission. Any one of these factors or a combination of these factors could materially affect our financial condition or future results of operations and could influence whether any forward-looking statements contained in this report ultimately prove to be accurate. Our forward-looking statements are not guarantees of future performance, and you should not place undue reliance on them. All forward-looking statements speak only as of the date made and we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Unless the context otherwise indicates or requires, the terms "we," "our," "us," and the "Company," as used in this report, refer to Third Point Reinsurance Ltd. ("Third Point Re") and its directly and indirectly owned subsidiaries, including Third Point Reinsurance Company Ltd. ("Third Point Re BDA") and Third Point Reinsurance (USA) Ltd. ("Third Point Re USA"), as a combined entity, except where otherwise stated or where it is clear that the terms mean only Third Point Re exclusive of its subsidiaries.

Overview

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

We manage our business on the basis of one operating segment, Property and Casualty Reinsurance. We also have a corporate function that includes our investment income on capital, certain general and administrative expenses related to corporate activities, interest expense, foreign exchange (gains) losses and income tax expense.

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 currently assume a minimal amount of property catastrophe risk and our property catastrophe exposures have remained low when compared to many other reinsurers with whom we compete. Insurance float is an important aspect of our property and casualty reinsurance operation. In an insurance or reinsurance operation, float arises because premiums from reinsurance contracts and consideration received for deposit accounted contracts are collected before losses are paid on reinsurance contracts and payments are made on deposit accounted contracts. In some instances, the interval between cash receipts and payments can extend over many years. During this time interval, we invest the cash received and seek to generate investment returns.

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

Investment Management

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

Change in Investment Management 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 ("LPA") of Third Point Enhanced LP ("TP Fund") with Third Point Advisors LLC ("TP GP") and others, effective August 31, 2018. In accordance with the LPA, TP GP will serve as the general partner of TP Fund. 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 will transfer assets and related liabilities (other than certain collateral assets) from their separate accounts to TP Fund, and TP Fund will issue limited partner interests to the TPRE Limited Partners proportionate to and based on the net asset value of the assets and related liabilities transferred by each such entity on the applicable transfer date. Certain collateral assets consisting of debt securities and restricted cash will not be transferred to TP Fund. Such collateral assets will be managed by Third Point LLC under a separate investment management agreement. Third Point Re BDA and Third Point Re USA will begin transferring the assets and related liabilities from their separate accounts to TP Fund on August 31, 2018, and substantially all of the assets are expected to be transferred by September 30, 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 “Existing Agreements”) will terminate on the date that all assets and related liabilities to be transferred to TP Fund under the Subscription Agreement, described below, have been transferred to TP Fund.

Pursuant to an Investment Management Agreement between Third Point LLC and TP Fund dated July 31, 2018 (the “TP Fund IMA”), Third Point LLC will be the investment manager for TP Fund. The TP Fund IMA will continue until terminated by any party thereto upon 90 days’ prior written notice to the other party. Pursuant to the TP Fund IMA, TP Fund will pay to Third Point LLC a monthly management fee equal to 0.125% (1.5% 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. 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. In addition, TP Fund will reimburse Third Point LLC for certain expenses incurred by Third Point LLC in connection with the TP Fund IMA. The TP Fund IMA includes provisions limiting liability of Third Point LLC and its affiliates to specified circumstances and providing for indemnification by TP Fund for certain losses suffered by Third Point LLC or its affiliates.

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 compared to what would have been expected under the separate accounts managed under the Existing Agreements, assuming similar underlying investment portfolio returns and exposure levels. However, there can be no assurance of such results.

In accordance with the investment guidelines under the LPA, the underlying investment portfolio of TP Fund will be 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. In addition, pursuant to the LPA, TP GP will be required to apply the following limitations for TP Fund: (1) Composition of Investments: at least 60% of the investment portfolio will be held in debt and equity securities of publicly traded companies and governments of the Organization of Economic Co-operation and Development (“OECD”) high income countries, asset backed securities, cash, cash equivalents and gold and other precious metals; (2) Concentration of Investments: other than cash, cash equivalents and United States government obligations, TP Fund’s total exposure to any one issuer or entity will constitute no more than 15% (multiplied by the exposure multiplier described above) of the investment portfolio’s total exposure; (3) Liquidity: the portfolio of TP Fund will be invested in such fashion that the Company has a reasonable expectation that it can meet any of its liabilities as they become due; and (4) Net Exposure Limits: the net exposure may not exceed two times net asset value for more than 10 trading days in any 30-trading day period. Net exposure represents the short exposure subtracted from the long exposure in a given category. 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. The TPRE Limited Partners may also withdraw their investment upon the occurrence of certain events specified in the LPA and may withdraw their investment in full on December 31, 2021 and each successive three-year anniversary of such date. The term of TP Fund shall continue until the occurrence of certain events described in the LPA.

With respect to each of the TPRE Limited Partners, TP GP will receive a performance allocation equal to 20% of the net investment income allocated to each limited partner’s capital account in TP Fund. The performance allocation will be calculated at the end of each fiscal year of TP Fund as 20% of the net increase, if any, allocated to the limited partner’s capital account in TP Fund for such fiscal year, minus the management fee and any loss recovery account balance relating to such capital account.

As discussed above, on July 31, 2018, the TPRE Limited Partners and TP Fund executed a Subscription Agreement pursuant to which the TPRE Limited Partners will transfer certain assets and related liabilities from their separate accounts to TP Fund over a number of transfer dates beginning on August 31, 2018, and TP Fund will issue limited

partner interests proportionate to and based on the net asset value of the assets and related liabilities transferred on each applicable transfer date.

The Subscription Agreement includes provisions limiting liability of TP GP and its affiliates to specified circumstances and providing for indemnification by the TPRE Limited Partners for certain losses incurred by TP GP and its affiliates.

On July 31, 2018, Third Point Re BDA and Third Point Re USA entered into an investment management agreement with Third Point LLC (the "Collateral Assets IMA"), effective August 31, 2018, pursuant to which Third Point LLC will serve as investment manager of certain collateral assets that are not expected to 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 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.

As a result of the change described above, the Company's investments in TP Fund will be presented on the condensed consolidated balance sheets as an investment in a related party investment fund.

See Note 23 to our condensed consolidated financial statements for additional information.

Business Outlook

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

There continues to be significant underwriting capacity available and market conditions remain challenging. We believe this excess capacity is due to strong retained earnings in the reinsurance industry as a result of low catastrophe losses in recent years, an influx of capacity from collateralized reinsurance and other insurance-linked securities vehicles and increased competition from new entrants. During the third quarter of 2017, the insurance industry was impacted by significant catastrophe losses, including losses caused by hurricanes Harvey, Irma and Maria and two earthquakes in Mexico. Considering the significant third quarter catastrophe losses, losses sustained in the fourth quarter from California wildfires and other smaller catastrophe losses incurred throughout the year, AIR Worldwide, Risk Management Solutions, Inc., and most other industry experts believe that the amount of insured catastrophe losses for 2017 will exceed \$100 billion. While many market participants were hopeful that the significant catastrophe losses would lead to significant improvements in pricing, terms and conditions within the property catastrophe line of business with the possibility of improvements in other reinsurance lines, improvements within the property catastrophe line of business at the January 1 and June 30 renewals date were generally lower than market expectations. However, we are seeing some signs of improvement in reinsurance terms and conditions and underlying pricing in some of the lines of business that we focus on. We renewed several contracts during the fourth quarter of 2017 and the first half of 2018 where we were able to achieve improved reinsurance terms and/or believe there was some modest improvement in the

pricing of the underlying insurance policies. We are cautiously optimistic that we will continue to see similar improvements across our in force portfolio as well as new business opportunities.

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

Key Performance Indicators

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

The table below shows the key performance indicators for our consolidated business for the three and six months ended June 30, 2018 and 2017:

| | Three months ended June 30, 2018 | | Six months ended June 30, 2018 | | June 30, 2017 | |
|--|---|-------------|--------------------------------------|-------------|------------------|--|
| Key underwriting metrics for Property and Casualty Reinsurance segment: | (\$ in thousands, except for per share data and ratios) | | | | | |
| Net underwriting loss ⁽¹⁾ | \$(5,054) | \$(12,111) | \$(11,417) | \$(20,761) | | |
| Combined ratio ⁽¹⁾ | 103.6 % | 107.0 % | 104.0 % | 106.6 % | | |
| Key investment return metrics: | | | | | | |
| Net investment income | \$31,175 | \$107,325 | \$28,967 | \$235,835 | | |
| Net investment return on investments managed by Third Point LLC | 1.0 % | 4.5 % | 0.8 % | 10.6 % | | |
| Key shareholders' value creation metrics: | | | | | | |
| Basic book value per share ^{(2) (3)} | \$16.31 | \$16.33 | \$16.31 | \$16.33 | | |
| Diluted book value per share ^{(2) (3)} | \$15.63 | \$15.65 | \$15.63 | \$15.65 | | |
| Change in diluted book value per share ⁽²⁾ | 1.6 % | 5.0 % | (0.1) % | 12.0 % | | |
| Return on beginning shareholders' equity attributable to Third Point Re common shareholders ⁽²⁾ | 1.2 % | 5.0 % | (0.4) % | 12.8 % | | |
| Invested asset leverage ⁽³⁾ | 1.6 | 1.6 | 1.6 | 1.6 | | |

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

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

⁽³⁾ Prior year comparatives represent amounts as of December 31, 2017.

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

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

Key Shareholders' Value Creation Metrics

Basic Book Value Per Share and Diluted Book Value Per Share

Basic book value per share and diluted book value per share are non-GAAP financial measures and there are no comparable GAAP measures. See "Non-GAAP Financial Measures and Other Financial Metrics" for reconciliations. As of June 30, 2018, basic book value per share was \$16.31, representing an increase of \$0.28 per share, or 1.7%, from \$16.03 per share as of March 31, 2018. As of June 30, 2018, diluted book value per share was \$15.63, representing an increase of \$0.24 per share, or 1.6%, from \$15.39 per share as of March 31, 2018. The increases were primarily due to net income in the period.

As of June 30, 2018, basic book value per share was \$16.31, representing a decrease of \$0.02 per share, or 0.1%, from \$16.33 per share as of December 31, 2017. As of June 30, 2018, diluted book value per share was \$15.63, representing a decrease of \$0.02 per share, or 0.1%, from \$15.65 per share as of December 31, 2017. The decreases were primarily due to a net loss in the period.

The changes in basic book value per share and diluted book value per share were also impacted by share activity including share repurchases and the issuance of performance restricted shares.

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

Return on beginning shareholders' equity attributable to Third Point Re common shareholders as presented is a non-GAAP financial measure. See "Non-GAAP Financial Measures and Other Financial Metrics" for reconciliation. The decrease in return on beginning shareholders' equity attributable to Third Point Re common shareholders for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 was primarily due to a decrease in net income in the current year periods.

Invested Asset Leverage

Invested asset leverage is a ratio calculated by dividing our net investments managed by Third Point LLC by shareholders' equity attributable to Third Point Re common shareholders and is a key metric in assessing the amount of insurance float generated by our reinsurance operation that has been invested by our investment manager, Third Point LLC. Given the sensitivity of our return on beginning shareholders' equity to our net investment return on investments managed by Third Point LLC, invested asset leverage is an important metric that management monitors. It is also an important metric by which we evaluate our capital adequacy for rating agency and regulatory purposes. Maintaining an appropriate invested asset leverage in order to optimize our return potential, while maintaining sufficient rating agency and regulatory capital is an important aspect of how we manage the Company. We generally target an invested asset leverage ratio within a range of approximately 1.5 to 1.6, which we believe appropriately balances our return potential against the risk within our investment portfolio. Invested asset leverage was consistent between June 30, 2018 and December 31, 2017.

Consolidated Results of Operations—Three and six months ended June 30, 2018 and 2017:

The following table sets forth the key items discussed in the consolidated results of operations section, and the period over period change, for the three and six months ended June 30, 2018 and 2017:

| | Three months ended | | | Six months ended | | |
|---|--------------------|------------------|-------------|------------------|------------------|--------------|
| | June 30, 2018 | June 30, 2017 | Change | June 30, 2018 | June 30, 2017 | Change |
| | (\$ in thousands) | | | | | |
| Net underwriting income (loss) (1) | \$ (5,054) | \$ (12,111) | \$ 7,057 | \$ (11,417) | \$ (20,761) | \$ 9,344 |
| Net investment income | 31,175 | 107,325 | (76,150) | 28,967 | 235,835 | (206,868) |
| Net investment return on investments managed by Third Point LLC | 1.0 | % 4.5 | % (3.5) | % 0.8 | % 10.6 | % (9.8) |
| General and administrative expenses (2) | (4,733) | (5,365) | 632 | (9,390) | (9,625) | 235 |
| Other expenses | (3,983) | (2,105) | (1,878) | (7,978) | (5,006) | (2,972) |
| Interest expense | (2,051) | (2,051) | — | (4,080) | (4,077) | (3) |
| Foreign exchange gains (losses) | 8,847 | (4,781) | 13,628 | 2,236 | (4,796) | 7,032 |
| Income tax expense | (4,390) | (5,307) | 917 | (4,518) | (10,605) | 6,087 |
| Net income (loss) available to Third Point Re common shareholders | \$ 19,602 | \$ 74,578 | \$ (54,976) | \$ (6,399) | \$ 178,764 | \$ (185,163) |

(1) Property and Casualty Reinsurance segment only.

(2) Corporate function only.

The key driver of our results of operations is the performance of our investments managed by Third Point LLC. Given the nature of the underlying investment strategies, we expect volatility in our investment returns and net investment income and therefore in our consolidated results. See additional information regarding investment performance in “Investment Results” section below.

The other key changes in net income (loss) for the three and six months ended June 30, 2018 compared to the prior year periods were primarily due to the following:

Change in net underwriting results:

The improvement in our net underwriting results for the three and six months ended June 30, 2018 compared to three and six months ended June 30, 2017 was primarily due to a decrease in general and administrative expenses allocated to underwriting activities in the three and six months ended June 30, 2018. The decrease in our general and administrative expenses allocated to underwriting activities was due to lower payroll related costs as result of lower annual incentive plan compensation expense accruals and lower stock compensation expense in the current year periods. Our annual incentive plan is based on a formula derived from certain financial performance metrics and as a result of the Company’s lower performance in the three and six months ended June 30, 2018, the incentive plan compensation accrual was lower then the prior year periods.

Other key variances:

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 on loss and loss adjustment expense reserves in the current year periods were offset by corresponding foreign exchange losses included in net investment income resulting from the revaluation of foreign currency reinsurance collateral held in trust accounts.

The decrease in income tax expense for the three and six months ended June 30, 2018 was primarily the result of a decrease in taxable income generated by our U.S. subsidiaries in the current year periods.

Segment Results—Three and six months ended June 30, 2018 and 2017.

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

Property and Casualty Reinsurance

The following table sets forth net underwriting results and ratios, and the period over period changes for the Property and Casualty Reinsurance segment for the three and six months ended June 30, 2018 and 2017:

| | Three months ended | | | Six months ended | | |
|---|--------------------|---------------|-------------|------------------|---------------|-------------|
| | June 30, 2018 | June 30, 2017 | Change | June 30, 2018 | June 30, 2017 | Change |
| | (\$ in thousands) | | | | | |
| Gross premiums written | \$49,765 | \$156,564 | \$(106,799) | \$428,125 | \$302,918 | \$125,207 |
| Gross premiums ceded | (3,479) | (1,425) | (2,054) | (18,125) | (2,550) | (15,575) |
| Net premiums earned | 141,493 | 173,558 | (32,065) | 283,979 | 311,567 | (27,588) |
| Loss and loss adjustment expenses incurred, net | 84,000 | 107,379 | (23,379) | 176,620 | 193,274 | (16,654) |
| Acquisition costs, net | 57,584 | 68,641 | (11,057) | 108,989 | 123,093 | (14,104) |
| General and administrative expenses | 4,963 | 9,649 | (4,686) | 9,787 | 15,961 | (6,174) |
| Net underwriting income (loss) | (5,054) | (12,111) | 7,057 | (11,417) | (20,761) | 9,344 |
| Net investment income on float | 4,922 | 31,206 | (26,284) | 7,521 | 67,326 | (59,805) |
| Other expenses | (3,983) | (2,105) | (1,878) | (7,978) | (5,006) | (2,972) |
| Foreign exchange gains (losses) | 8,847 | (4,781) | 13,628 | 2,236 | (4,796) | 7,032 |
| Segment income (loss) | \$4,732 | \$12,209 | \$(7,477) | \$(9,638) | \$36,763 | \$(46,401) |
| Underwriting ratios (1): | | | | | | |
| Loss ratio | 59.4 | % 61.9 | % (2.5) | % 62.2 | % 62.0 | % 0.2 |
| Acquisition cost ratio | 40.7 | % 39.5 | % 1.2 | % 38.4 | % 39.5 | % (1.1) |
| Composite ratio | 100.1 | % 101.4 | % (1.3) | % 100.6 | % 101.5 | % (0.9) |
| General and administrative expense ratio | 3.5 | % 5.6 | % (2.1) | % 3.4 | % 5.1 | % (1.7) |
| Combined ratio | 103.6 | % 107.0 | % (3.4) | % 104.0 | % 106.6 | % (2.6) |

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

Gross Premiums Written

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

- We write a small number of large contracts; therefore individual renewals or new business can have a significant impact on premiums recognized in a period;
- We offer customized solutions to our clients, including reserve covers, on which we may not have a regular renewal opportunity;
- We record gross premiums written and earned for reserve covers, which are considered retroactive reinsurance contracts, at the inception of the contract;
- We write multi-year contracts that will not necessarily renew in a comparable period;

We may extend and/or amend contracts resulting in premium that will not necessarily renew in a comparable period; Our reinsurance contracts often contain commutation and/or cancellation provisions; and Our quota share reinsurance contracts are subject to significant judgment in the amount of premiums that we expect to recognize and changes in premium estimates are recorded in the period they are determined.

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

The following table provides a breakdown of our Property and Casualty Reinsurance segment's gross premiums written by line of business for the three and six months ended June 30, 2018 and 2017:

| | Three months ended | | | Six months ended | | | | |
|---|--------------------|---------------|------------|------------------|---------------|--------|------------|---------|
| | June 30, 2018 | June 30, 2017 | | June 30, 2018 | June 30, 2017 | | | |
| | (\$ in thousands) | | | | | | | |
| Property | \$1,660 | 3.3 % | \$(8,827) | (5.6)% | \$2,029 | 0.5 % | \$(8,815) | (2.9)% |
| Casualty | 43,510 | 87.4 % | 15,008 | 9.6 % | 196,730 | 46.0 % | 102,213 | 33.7 % |
| Specialty | 254 | 0.6 % | 41,032 | 26.2 % | 225,025 | 52.5 % | 100,169 | 33.1 % |
| Total prospective reinsurance contracts | \$45,424 | 91.3 % | \$47,213 | 30.2 % | \$423,784 | 99.0 % | \$193,567 | 63.9 % |
| Retroactive reinsurance contracts | 4,341 | 8.7 % | 109,351 | 69.8 % | 4,341 | 1.0 % | 109,351 | 36.1 % |
| | \$49,765 | 100.0% | \$156,564 | 100.0 % | \$428,125 | 100.0% | \$302,918 | 100.0 % |

The decrease in gross premiums written of \$106.8 million, or 68.2%, for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 was driven by:

Factors resulting in decreases:

We recognized a net increase in premium of \$35.5 million in the three months ended June 30, 2018 compared to a net increase of \$110.8 million in the three months ended June 30, 2017 related to the net impact of contract extensions, cancellations and contracts renewed with no comparable premium in the comparable period. In addition, the three months ended June 30, 2017 included \$109.4 million of premium related to new retroactive exposures in reinsurance contracts compared to only \$4.3 million in the current year period.

Changes in renewal premiums for the three months ended June 30, 2018 resulted in a net decrease in premiums of \$22.6 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 \$0.4 million and \$14.3 million for the three months ended June 30, 2018 and 2017, respectively. The increases in premium estimates for the three months ended June 30, 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.

We recognized \$11.2 million of premium in the three months ended June 30, 2017 related to contracts that we did not renew in the three months ended June 30, 2018 as a result of underlying terms and conditions.

Factor resulting in an increase:

For the three months ended June 30, 2018, we wrote \$16.2 million of new premium, of which \$8.2 million was casualty business, \$7.7 million was specialty business and \$0.3 million was property business.

The increase in gross premiums written of \$125.2 million, or 41.3%, for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was driven by:

Factors resulting in increases:

For the six months ended June 30, 2018, we wrote \$122.6 million of new premium, of which \$110.7 million was specialty business, including one multi-line contract covering casualty and specialty risks for \$91.6 million, \$11.6 million was casualty business and \$0.3 million was property business.

We recognized a net increase in premium of \$162.6 million in the six months ended June 30, 2018 compared to a net increase of \$118.3 million in the six months ended June 30, 2017 related to the net impact of contract extensions, cancellations and contracts renewed with no comparable premium in the comparable period.

Factors resulting in decreases:

We recognized \$26.1 million of premium in the six months ended June 30, 2017 related to contracts that we did not renew in the six months ended June 30, 2018 as a result of underlying terms and conditions.

Changes in renewal premiums for the six months ended June 30, 2018 resulted in a net decrease in premiums of \$14.5 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 \$14.5 million and \$15.6 million for the six months ended June 30, 2018 and 2017, respectively. The increases in premium estimates for the six months ended June 30, 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.

Gross Premiums Ceded

The increase in gross premiums ceded for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 was primarily due to a new ceded contract covering certain of our 2018 mortgage contracts.

Net Premiums Earned

The decrease in net premiums earned in the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 was primarily due to retroactive exposures in reinsurance contracts in the prior year periods, partially offset by a higher in-force underwriting portfolio in the current year periods.

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 and a higher in-force underwriting portfolio.

The following is a summary of the net impact from loss reserve development for the three and six months ended June 30, 2018 and 2017:

For the three months ended June 30, 2018, we recognized \$8.0 million, or 5.7 percentage points on the combined ratio, of net favorable prior years' reserve development as a result of decreases in loss reserve estimates, offset by net increases of \$5.6 million, or 4.0 percentage points on the combined ratio, in acquisition costs, resulting in a \$2.4 million, or 1.7 percentage points on the combined ratio improvement in the net underwriting results. The net underwriting results impact of the favorable loss development was primarily due to the following factors:

\$3.1 million of net favorable underwriting loss development relating to several workers' compensation contracts written from 2012 to 2017, driven by better than expected loss experience;

\$2.7 million of net favorable underwriting loss development from several other contracts, as a result of better than expected loss experience; partially offset by

\$3.4 million of net adverse underwriting loss development primarily relating to our Florida homeowners' reinsurance contracts. This development is a result of higher than anticipated water damage claims and an increase in the practice of assignment of benefits whereby homeowners assign their rights for filing and settling claims to attorneys and public adjusters. This practice has led to increases in the frequency of claims reported as well as the severity of losses and loss adjustment expenses.

For the three months ended June 30, 2017, we recognized \$30.9 million of net favorable prior years' reserve development which was primarily a result of having favorable loss development on certain retroactive reinsurance contracts. These retroactive reinsurance contracts had profit commission terms such that the favorable reserve development associated with these contracts was offset by similar increases in acquisition costs, resulting in minimal impact in the net underwriting loss.

For the six months ended June 30, 2018, we recognized \$8.5 million, or 3.0 percentage points on the combined ratio, of net favorable prior years' reserve development as a result of decreases in loss reserve estimates, offset by net increases of \$5.7 million, or 2.0 percentage points on the combined ratio, in acquisition costs, resulting in a \$2.8 million improvement in the net underwriting results. The net underwriting results impact of the favorable loss development was primarily due to the following factors:

- \$5.4 million of net favorable underwriting loss development relating to several workers' compensation contracts written from 2012 to 2017, driven by better than expected loss experience;

- \$2.9 million of net favorable underwriting loss development primarily relating to one multi-line contract written from 2014 to 2017, driven by better than expected loss experience;

- \$1.9 million of net favorable underwriting loss development from several other contracts, as a result of better than expected loss experience; partially offset by

- \$7.4 million of net adverse underwriting loss development primarily relating to our Florida homeowners' quota share reinsurance contracts. This development is a result of higher than anticipated water damage claims and an increase in the practice of assignment of benefits whereby homeowners assign their rights for filing and settling claims to attorneys and public adjusters. This practice has led to increases in the frequency of claims reported as well as the severity of losses and loss adjustment expenses.

For the six months ended June 30, 2017, we recognized \$32.5 million of net favorable prior years' reserve development. The \$32.5 million of net favorable prior years' reserve development for the six months ended June 30, 2017 was primarily a result of having favorable loss development on certain retroactive reinsurance contracts. These retroactive reinsurance contracts had profit commission terms such that the favorable reserve development associated with these contracts was offset by similar increases in acquisition costs, resulting in minimal impact in the net underwriting loss.

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 decrease in acquisition costs, net and the related acquisition cost ratio for the three and six months ended June 30, 2018 was primarily due to favorable development on two retroactive reinsurance contracts in the prior year periods which had profit commission terms such that the favorable development associated with these contracts was entirely offset by similar increases in acquisition costs.

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

Net Investment Income

Net investment income allocated to the Property and Casualty Reinsurance segment consists of net investment income on float. The decrease in net investment income on float for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 was primarily due to the decrease in investment returns compared to the prior year periods and higher amount of investments attributable to float managed by Third Point LLC. See the discussion of net investment income under “Corporate Function” below for explanations of the investment returns on investments managed by Third Point LLC and total net investment income for the years presented.

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 three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 decreased as result of lower payroll related costs primarily due to lower annual incentive plan compensation expense accruals and lower stock compensation expense. Our annual incentive plan is based on a formula derived from certain financial performance metrics. Our accrual was lower for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 to reflect the lower performance of the Company in the periods relative to the bonus pool performance metrics.

Other Expenses

Other expenses are comprised of expenses relating to interest crediting features in certain reinsurance and deposit contracts. The increase in other expenses for the three and six months ended June 30, 2018 was primarily due to revised estimates of underlying assumptions on our deposit liability contracts as well as to an increase in the amount of total deposit liabilities compared to the three and six months ended June 30, 2017.

Foreign Exchange Gains (Losses)

The foreign exchange gains for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 was primarily due to the revaluation of foreign currency loss and loss adjustment expense reserves denominated in British pounds into the United States dollar, which had strengthened during the current year periods compared to the prior year periods. For these contracts, non-U.S. dollar reinsurance assets, or balances held in trust accounts securing reinsurance liabilities generally offset reinsurance liabilities in the same non-U.S. dollar currencies resulting in minimal net exposure. As a result, the foreign exchange gains on loss and loss adjustment expense reserves in the current year periods were offset by corresponding foreign exchange losses included in net investment income resulting from the revaluation of foreign currency reinsurance collateral held in trust accounts. Refer to “ITEM 3. Quantitative and Qualitative Disclosures about Market Risks” for further discussion on foreign currency risk related to our reinsurance contracts.

Corporate Function

The following table sets forth net income and the period over period changes for the corporate function for the three and six months ended June 30, 2018 and 2017:

| | Three months ended | | | Six months ended | | |
|--|--------------------|---------------|------------|------------------|---------------|-------------|
| | June 30, 2018 | June 30, 2017 | Change | June 30, 2018 | June 30, 2017 | Change |
| | (\$ in thousands) | | | | | |
| Less: net investment income on capital | \$26,253 | \$76,119 | \$(49,866) | \$21,446 | \$168,509 | \$(147,063) |
| General and administrative expenses | (4,733) | (5,365) | 632 | (9,390) | (9,625) | 235 |
| Interest expense | (2,051) | (2,051) | — | (4,080) | (4,077) | (3) |
| Income tax expense | (4,390) | (5,307) | 917 | (4,518) | (10,605) | 6,087 |
| Segment income attributable to noncontrolling interests in related party | (209) | (1,027) | 818 | (219) | (2,201) | 1,982 |
| Segment income | \$14,870 | \$62,369 | \$(47,499) | \$3,239 | \$142,001 | \$(138,762) |

Investment Results

The primary driver of our net investment income is the returns generated by our investment portfolio managed by our investment manager, Third Point LLC. The following is a summary of the net investment return on investments managed by Third Point LLC by investment strategy for the three and six months ended June 30, 2018 and 2017:

| | Three months ended | | | | | | |
|---|--------------------|--------|--------|---------------|--------|--------|-------|
| | June 30, 2018 | | | June 30, 2017 | | | |
| | Long | Short | Net | Long | Short | Net | |
| Equity | 3.4 % | (1.9)% | 1.5 % | 6.5 % | (1.1)% | 5.4 % | |
| Credit | 0.3 % | (0.2)% | 0.1 % | (0.3)% | (0.3)% | (0.6)% | |
| Other | (1.3)% | 0.7 % | (0.6)% | 0.2 % | (0.5)% | (0.3)% | |
| Net investment return on investments managed by Third Point LLC | 2.4 % | (1.4)% | 1.0 % | 6.4 % | (1.9)% | 4.5 % | |
| S&P 500 Total Return Index | | | | 3.4 % | | | 3.1 % |

| | Six months ended | | | | | | |
|---|------------------|--------|--------|---------------|--------|--------|-------|
| | June 30, 2018 | | | June 30, 2017 | | | |
| | Long | Short | Net | Long | Short | Net | |
| Equity | 2.7 % | (2.0)% | 0.7 % | 13.0 % | (2.2)% | 10.8 % | |
| Credit | 0.7 % | (0.2)% | 0.5 % | 0.1 % | (0.4)% | (0.3)% | |
| Other | (0.9)% | 0.5 % | (0.4)% | 1.0 % | (0.9)% | 0.1 % | |
| Net investment return on investments managed by Third Point LLC | 2.5 % | (1.7)% | 0.8 % | 14.1 % | (3.5)% | 10.6 % | |
| S&P 500 Total Return Index | | | | 2.6 % | | | 9.3 % |

For the three months ended June 30, 2018, positive performance was primarily attributable to positive returns generated by the long equity portfolio, with all sectors contributing positive returns except financials. Gains in the long equity portfolio were partially offset by losses in short equity investments and market hedges. The credit portfolio posted modest net gains from strength in long structured product investments. The macroeconomic and other portfolio detracted from overall returns due to negative performance from some currency hedges and a merger arbitrage position.

For the six months ended June 30, 2018, the investment portfolio performance was modestly positive as strong results for several core long equity positions were offset by losses from short investments, market hedges, and investments in emerging markets. Within equities, gains from long investments in the healthcare and technology, media and

telecommunication sectors were offset by losses in the consumer sector. Across the remaining portfolio, positive performance in structured credit was partially offset by losses in the macroeconomic and other portfolio, primarily driven by weakness in currency hedges.

For the three months ended June 30, 2017, the long equity strategy was the primary driver of returns. Within equities, we saw positive attribution across every sector with large long investments in the healthcare and industrials portfolios contributing the majority of positive returns. Gains in our long equity strategy were partially offset by losses in market hedges and short equity positions. Modest losses in the credit strategy were primarily driven by both long and short performing credit investments. Losses from macroeconomic hedges were partially offset by gains in currency, private and risk arbitrage investments in the other strategy.

For the six months ended June 30, 2017, the net investment results were led by strong gains in the long equity strategy, outpacing the S&P 500 for the same period with significantly less exposure at risk. The strategy saw positive attribution from every sector in which the portfolio is invested. The long equity portfolio performance was partially offset by negative performance from short equity positions, including market hedges. The credit strategy detracted modestly with flat or negative performance from each sub-strategy. In the other strategy, losses from macroeconomic hedges were offset by positive contribution from risk arbitrage, private and currency investments.

Refer to “ITEM 3. Quantitative and Qualitative Disclosures about Market Risks” for a list of risks and factors that could adversely impact our investments results.

General and Administrative Expenses

General and administrative expenses allocated to corporate activities include allocations of payroll and related costs for certain executives and non-underwriting 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 three and six months ended June 30, 2018 was primarily due to a decrease in our annual incentive plan compensation expense. Our accrual was lower for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 to reflect the lower performance of the Company in the periods relative to the bonus pool performance metrics.

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.

Income Taxes

See Note 14 to our condensed consolidated financial statements for additional information regarding income taxes. The decrease in income tax expense for the three and six months ended June 30, 2018 was primarily the result of a decrease in taxable income generated by our U.S. subsidiaries.

Non-GAAP Financial Measures and Other Financial Metrics

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

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

Non-GAAP Financial Measures

Net Investment Income on Float

Net investment income on float is an important aspect of our property and casualty reinsurance operation. In an insurance or reinsurance operation, float arises because premiums and proceeds from deposit accounted contracts are collected before losses are paid. In some instances, the interval between receipts and payments can extend over many years. During this time interval, insurance and reinsurance companies invest the premiums received and generate investment returns. We track cash flows generated by our property and casualty reinsurance operations, or float, in separate accounts that allow us to also track the net investment income generated on the float. We believe that net investment income generated on float is an important consideration in evaluating the overall contribution of our property and casualty reinsurance operation to our consolidated results. It is also explicitly considered as part of the evaluation of management's performance for purposes of long-term incentive compensation. Net investment income on float as presented is a non-GAAP financial measure. See the table below for a reconciliation of net investment income on float to net investment income for the three and six months ended June 30, 2018 and 2017.

| | Three months ended | | Six months ended | |
|---|--------------------|---------------|------------------|---------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| | (\$ in thousands) | | | |
| Net investment income | \$31,175 | \$107,325 | \$28,967 | \$235,835 |
| Less: other investment income (loss) | (9) |) 193 | (12) |) 460 |
| Net investment income on investments managed by Third Point LLC | 31,184 | 107,132 | 28,979 | 235,375 |
| Less: net investment income on capital | 26,262 | 75,926 | 21,458 | 168,049 |
| Net investment income on float | \$4,922 | \$31,206 | \$7,521 | \$67,326 |

Net Investment Return on Investments Managed by Third Point LLC

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

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.

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The following table sets forth the computation of basic and diluted book value per share as of June 30, 2018 and December 31, 2017:

| | June 30, 2018 | | December 31, 2017 |
|--|------------------|--|----------------------|
| Basic and diluted book value per share (\$ in thousands, except share and per share amounts) | | | |
| numerator: | | | |
| Shareholders' equity attributable to Third Point Re common shareholders | \$ 1,591,754 | | \$ 1,656,089 |
| Effect of dilutive warrants issued to founders and an advisor | 34,950 | | 46,512 |
| Effect of dilutive stock options issued to directors and employees | 51,422 | | 51,422 |
| Diluted book value per share numerator: | \$ 1,678,126 | | \$ 1,754,023 |
| Basic and diluted book value per share denominator: | | | |
| Common shares outstanding | 99,627,399 | | 103,282,427 |
| Unvested restricted shares | (2,050,115) | | (1,873,588) |
| Basic book value per share denominator: | 97,577,284 | | 101,408,839 |
| Effect of dilutive warrants issued to founders and an advisor | 3,494,979 | | 4,651,163 |
| Effect of dilutive stock options issued to directors and employees | 5,123,531 | | 5,123,531 |
| Effect of dilutive restricted shares issued to directors and employees (1) | 1,202,464 | | 905,412 |
| Diluted book value per share denominator: | 107,398,258 | | 112,088,945 |
| Basic book value per share | \$ 16.31 | | \$ 16.33 |
| Diluted book value per share | \$ 15.63 | | \$ 15.65 |

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As of June 30, 2018, the effect of dilutive restricted shares issued to directors and employees was comprised of (1)48,129 restricted shares with a service condition only and 1,154,335 restricted shares with a service and performance condition that were considered probable of vesting.

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

Return on beginning shareholders' equity attributable to Third Point Re common shareholders, as presented, is a non-GAAP financial measure. Return on beginning shareholders' equity attributable to Third Point Re common shareholders is calculated by dividing net income available to Third Point Re common shareholders by the beginning shareholders' equity attributable to Third Point Re common shareholders. We believe that return on beginning shareholders' equity attributable to Third Point Re common shareholders is an important measure because it assists our management and investors in evaluating the Company's profitability. For the three and six months ended June 30, 2018, 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 for the three and six months ended June 30, 2018 and 2017 was calculated as follows:

| | Three months ended | | Six months ended | |
|--|--------------------|--------------|------------------|--------------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2018 | 2017 | 2018 | 2017 |
| | (\$ in thousands) | | | |
| Net income (loss) available to Third Point Re common shareholders | \$ 19,602 | \$ 74,578 | \$(6,399) | \$ 178,764 |
| Shareholders' equity attributable to Third Point Re common shareholders - beginning of period | 1,607,422 | 1,501,681 | 1,656,089 | 1,414,051 |
| Impact of weighting related to shareholders' equity from shares repurchased | (7,606) | (9,863) | (13,673) | (16,882) |
| Adjusted shareholders' equity attributable to Third Point Re common shareholders - beginning of period | \$ 1,599,816 | \$ 1,491,818 | \$ 1,642,416 | \$ 1,397,169 |
| Return on beginning shareholders' equity attributable to Third Point Re common shareholders | 1.2 | % 5.0 | % (0.4) | % 12.8 % |

Other Financial Metrics

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

One way that we evaluate the performance of our property and casualty reinsurance results is by measuring net underwriting income (loss). We do not measure performance based on the amount of gross premiums written. Net underwriting income or loss is calculated from net premiums earned, less net loss and loss adjustment expenses, acquisition costs and general and administrative expenses related to underwriting activities. See additional information in Note 22 to our condensed consolidated financial statements.

Combined Ratio for Property and Casualty Reinsurance Segment

Combined ratio is calculated by dividing the sum of loss and loss adjustment expenses incurred, net, acquisition costs, net and general and administrative expenses related to underwriting activities by net premiums earned. This ratio is a key indicator of a reinsurance company's underwriting profitability. A combined ratio of greater than 100% means that loss and loss adjustment expenses, acquisition costs and general and administrative expenses related to underwriting activities exceeded net premiums earned. See additional information in Note 22 to our condensed consolidated financial statements.

Liquidity and Capital Resources

Liquidity Requirements

Third Point Re is a holding company and has no substantial operations of its own and has moderate cash needs, most of which are related to the payment of corporate expenses. Its assets consist primarily of its investments in subsidiaries. Third Point Re's ability to pay dividends or return capital to shareholders will depend upon the availability of dividends or other statutorily permissible distributions from those subsidiaries. Cash is used primarily to pay loss and loss adjustment expenses, reinsurance premiums, acquisition costs, interest expense, taxes, general and administrative expenses, and to purchase investments.

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

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

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

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

Third Point Re may also require cash to fund share repurchases. See Note 15 to our condensed consolidated financial statements for detailed information on our share repurchases.

Sources of Liquidity

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

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

As of June 30, 2018, \$2,362.0 million, or 76.2% (December 31, 2017 - \$2,202.4 million, or 73.5%) of our total investments in securities were classified as Level 1 assets, which are defined as securities valued using quoted prices available in active markets. See Note 4 to our condensed consolidated financial statements for additional information on the framework for measuring fair value established by U.S. GAAP disclosure requirements.

In addition, we expect that our cash and cash equivalents on the balance sheet and cash flow from operations will provide us with the financial flexibility to execute our strategic objectives. Our ability to generate cash, however, is subject to our performance, general economic conditions, industry trends and other factors. To the extent cash and cash equivalents on the balance sheet, investment returns and cash flow from operations are insufficient to fund our future activities and requirements, we may need to raise additional funds through public or private equity or debt financing. If we issue equity securities in order to raise additional funds, substantial dilution to existing shareholders may occur. If we raise cash through the issuance of additional indebtedness, we may be subject to additional contractual restrictions on our business. There is no assurance that we would be able to raise the additional funds on favorable terms or at all. There are regulatory and contractual restrictions and rating agency considerations that might impact the ability of our reinsurance subsidiaries to pay dividends to their respective parent companies, including for purposes of servicing TPRUSA's debt obligations.

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

Cash Flows

Our cash flows from operations generally represent the difference between: (1) premiums collected and investment earnings realized and (2) loss and loss expenses paid, reinsurance purchased, underwriting and other expenses paid. Cash flows from operations may differ substantially from net income (loss) and may be volatile from period to period.

depending on the underwriting opportunities available to us and other factors. Due to the nature of our underwriting portfolio, claim payments can be unpredictable and may need to be made within relatively short periods of time.

Claim payments can also be required several months or years after premiums are collected.

Operating, investing and financing cash flows for the six months ended June 30, 2018 and 2017 were as follows:

| | 2018 | 2017 |
|---|-------------------|------------|
| | (\$ in thousands) | |
| Net cash provided by (used in) operating activities | \$13,359 | \$(17,445) |
| Net cash provided by investing activities | 188,510 | 146,933 |
| Net cash used in financing activities | (163,783) | (58,056) |
| Net increase in cash, cash equivalents and restricted cash | 38,086 | 71,432 |
| Cash, cash equivalents and restricted cash at beginning of period | 549,333 | 308,891 |
| Cash, cash equivalents and restricted cash at end of period | \$587,419 | \$380,323 |

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 provided by operating activities in the six months ended June 30, 2018 compared to the six months ended June 30, 2017 is primarily due to higher float generated from our reinsurance operations. Excess cash generated from our operating activities is typically then invested by Third Point LLC.

For the six months ended June 30, 2018 and 2017, we contributed \$11.9 million and redeemed \$15.1 million, respectively, from our separate accounts managed by Third Point LLC. These amounts do not correspond to the net cash provided by operating activities as presented in the condensed consolidated statements of cash flows prepared in accordance with U.S. GAAP.

The amount of float can vary significantly from period to period depending on the timing, type and size of reinsurance contracts we bind. Refer to "ITEM 2. Management's Discussion and Analysis - Property and Casualty Reinsurance" for a definition of insurance float.

Investing Activities

Cash flows provided by investing activities primarily reflects investment activities related to our separate accounts managed by Third Point LLC. Cash flows provided by investing activities for the six months ended June 30, 2018 primarily relates to proceeds from the sale of certain investments to fund cash flows from operations, \$101.5 million of net withdrawals from total noncontrolling interests and share repurchases of \$60.4 million. Cash flows provided by investing activities for the six months ended June 30, 2017 primarily relates to proceeds from the sale of certain investments to fund cash flows from operations and share repurchases.

Financing Activities

Cash flows used in financing activities for the six months ended June 30, 2018 consisted of \$101.5 million of net withdrawals from total noncontrolling interests and \$60.4 million for shares repurchased. Cash flows used in financing activities for the six months ended June 30, 2017 consisted of \$18.1 million of withdrawals from total noncontrolling interests and \$40.9 million for shares repurchased.

For the period from inception until June 30, 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 condensed consolidated financial statements for additional information on restricted cash, cash equivalents and investments.

Restricted cash and cash equivalents and restricted investments increased by \$12.6 million, or 1.4%, to \$880.2 million as of June 30, 2018 from \$867.6 million as of December 31, 2017. The increase was primarily due to an increase in the number of reinsurance contracts that required collateral. In addition, we are now investing a portion of the collateral securing certain reinsurance contracts in U.S. treasury securities and sovereign debt. This portion of the collateral is included in debt securities in the condensed consolidated balance sheets and is disclosed as part of restricted investments.

Letter of Credit Facilities

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

Cash Secured Letter of Credit Agreements

As of June 30, 2018, \$240.5 million (December 31, 2017 - \$250.5 million) of letters of credit, representing 57% of the total available facilities of \$425.0 million, had been issued (December 31, 2017 - 59% (based on total available facilities of \$425.0 million)).

Under the cash secured letter of credit facilities, we provide collateral that consists of cash and cash equivalents. As of June 30, 2018, total cash and cash equivalents with a fair value of \$240.5 million (December 31, 2017 - \$250.5 million) was pledged as collateral against the letters of credit issued. Our ability to post collateral securing letters of credit and certain reinsurance contracts depends in part on our ability to borrow against certain assets in our Investment Accounts through prime brokerage arrangements. See Note 5 to our condensed consolidated financial statements for additional information regarding our prime brokerage arrangements. The loss or reduction in this borrowing capacity could reduce the amount of reinsurance we write or reduce the amount of float that we contribute to our Investment Accounts. The collateral amounts securing letters of credit are included in restricted cash and cash equivalents in the condensed consolidated balance sheets. Each of the facilities contain customary events of default and restrictive covenants, including but not limited to, limitations on liens on collateral, transactions with affiliates, mergers and sales of assets, as well as solvency and maintenance of certain minimum pledged equity requirements and an A.M. Best Company rating of "A-" or higher. Each restricts issuance of any debt without the consent of the letter of credit provider. Additionally, if an event of default exists, as defined in the letter of credit facilities, we will be prohibited from paying dividends. We were in compliance with all of the covenants under the aforementioned facilities as of June 30, 2018.

Unsecured Revolving Credit and Letter of Credit Facility Agreement

On July 31, 2018, we 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. Letters of credit fees are payable on account of each letter of credit issued under the unsecured facility at a rate of 1.50% per annum and the commitment fee is 0.20% per annum. The Credit Agreement expires on July 30, 2019. See Note 23 to the accompanying condensed consolidated financial statements for additional information on the Syndicated Credit Facility.

Financial Condition

Shareholders' equity

As of June 30, 2018, total shareholders' equity was \$1,596.9 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 \$6.4 million and share repurchases of \$60.4 million.

Investments

As of June 30, 2018, total cash and net investments managed by Third Point LLC was \$2,560.9 million, compared to \$2,589.9 million as of December 31, 2017. The decrease was primarily due to net redemptions of \$52.5 million, primarily to fund share repurchases and cash flows from operations, partially offset by the net investment income on net investments managed by Third Point LLC of \$29.0 million.

Contractual Obligations

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

Off-Balance Sheet Commitments and Arrangements

We have no obligations, assets or liabilities, other than those derivatives in our investment portfolio and disclosed in the notes to our condensed consolidated financial statements, which would be considered off-balance sheet arrangements. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements.

Loan and other participation interests purchased by the Company, such as bank debt, may include revolving credit arrangements or other financing commitments obligating the Company to advance additional amounts on demand. As of June 30, 2018, the Company had unfunded capital commitments of \$61.7 million.

Critical Accounting Policies and Estimates

For a summary of our significant accounting and reporting policies, please refer to Note 2, "Significant accounting policies", included in our 2017 Form 10-K.

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

There have been no material changes in our critical accounting estimates for the six months ended June 30, 2018. Refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in our 2017 Form 10-K.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

Equity Price Risk

Our investment manager, Third Point LLC, tracks the performance and exposures of our investment portfolio, each strategy and sector, and selective individual securities. A particular focus is placed on "beta" exposure, which is the

portion of the portfolio that is directly correlated to risks and movements of the equity market as a whole (usually represented by the S&P 500 index) as opposed to idiosyncratic risks and factors associated with a specific position. Further, the performance of our investment portfolio has historically been compared to several market indices, including the S&P 500, CS/Tremont Event Driven Index, HFRI Event Driven Index, and others.

As of June 30, 2018, our investment portfolio included long and short equity securities, along with certain equity-based derivative instruments, the carrying values of which are primarily based on quoted market prices. Generally, market prices of common equity securities are subject to fluctuation, which could cause the amount to be realized upon the closing of the position to differ significantly from their current reported value. This risk is partly mitigated by the presence of both long and short equity securities in our investment portfolio. As of June 30, 2018, a 10% decline in the value of all equity and equity-linked derivatives would result in a loss of \$190.5 million, or 7.4% of our total net investments managed by Third Point LLC.

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

Foreign Currency Risk

Reinsurance Contracts

We have foreign currency exposure related to non-U.S. dollar denominated reinsurance contracts. Of our gross premiums written from inception, \$421.5 million, or 11.8%, were written in currencies other than the U.S. dollar. As of June 30, 2018, loss and loss adjustment expense reserves included \$169.9 million (December 31, 2017 - \$177.2 million) and net reinsurance balances receivable included \$16.4 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 \$181.3 million as of June 30, 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

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

We are exposed to foreign currency risk through cash, forwards, options and investments in securities denominated in foreign currencies. Foreign currency exchange rate risk is the potential for adverse changes in the U.S. dollar value of investments (long and short) and foreign currency derivative instruments, which we employ from both a speculative and risk management perspective, due to a change in the exchange rate of the foreign currency in which cash and financial instruments are denominated. As of June 30, 2018, our total net short exposure to foreign denominated securities represented 22.4% (December 31, 2017 - 26.2%) of our investment portfolio including cash and cash equivalents, of \$577.8 million (December 31, 2017 - \$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 our investment portfolio as of June 30, 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 | \$52,617 | 2.0 % | | \$(52,617) | (2.0)% | |
| Saudi Arabian Riyal | 11,406 | 0.4 % | | (11,406) | (0.4)% | |
| Swiss Franc | (7,413) | (0.3)% | | 7,413 | 0.3 % | |
| Other | 1,166 | 0.1 % | | (1,166) | (0.1)% | |
| Total | \$57,776 | 2.2 % | | \$(57,776) | (2.2)% | |

Interest Rate Risk

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

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

The following table summarizes the impact that a 100 basis point increase or decrease in interest rates would have on the value of our investment portfolio as of June 30, 2018:

| | 100 basis point increase in interest rates | | | 100 basis point decrease in interest rates | | |
|---|--|---|--|--|---|--|
| | Change in fair value | Change in fair value as % of investment portfolio | | Change in fair value | Change in fair value as % of investment portfolio | |
| | (\$ in thousands) | | | | | |
| U.S. treasuries and sovereign debt instruments ⁽¹⁾ | \$(1,297) | — % | | \$2,946 | — % | |
| Asset-backed securities ⁽²⁾ | (2,473) | (0.1)% | | 2,498 | (0.1)% | |
| Interest rate swaps and derivatives | 857 | — % | | (857) | — % | |
| Net exposure to interest rate risk | \$(2,913) | (0.1)% | | \$4,587 | (0.1)% | |

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

(2) Includes instruments for which durations are available on June 30, 2018. Includes a convexity adjustment if convexity is available. Not included are mortgage hedges which would reduce the impact of interest rate changes.

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

Commodity Price Risk

In managing our investment portfolio, Third Point LLC periodically monitors and actively trades to take advantage of, and/or seeks to minimize any losses from, fluctuations in commodity prices. As our investment manager, Third Point

LLC may choose to opportunistically make a long or short investment in a commodity or in a security directly affected

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by the price of a commodity as a response to market developments. From time to time, we invest in commodities or commodities exposures in the form of derivative contracts from both a speculative and risk management perspective. Generally, market prices of commodities are subject to fluctuation.

As of June 30, 2018, our investment portfolio had de minimis (December 31, 2017 - de minimis) commodity exposure.

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

Credit Risk

Reinsurance Contracts

We have exposure to credit risk through reinsurance contracts with companies that write credit risk insurance. Our portfolio of risk is predominantly U.S. mortgage insurance and mortgage credit risk transfer. We provide our clients in these lines of business with reinsurance protection against credit deterioration, defaults or other types of financial non-performance. Loss experience in these lines of business has been very good but is cyclical and is affected by the state of the general economic environment. We proactively manage the risks associated with these credit-sensitive lines of business by closely monitoring its risk aggregation and by diversifying the underlying risks where possible. We have bought some retrocessional coverage against a subset of these risks. We have written \$340.5 million, or 9.5%, of credit and financial lines premium since inception, of which \$77.8 million was written in the six months ended June 30, 2018. The majority of the mortgage insurance premium has been written as quota shares of private mortgage insurers, primarily in the United States.

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

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

Investments

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

In addition, the securities and cash in our investment portfolio are held with several prime brokers, subjecting us to the related credit risk from the possibility that one or more of them may default on their obligations to us. Our investment manager closely and regularly monitors the concentration of credit risk with each broker and if necessary, transfers cash or securities among brokers to diversify and mitigate our credit risk.

As of June 30, 2018 and December 31, 2017, the Company's holdings in non-investment grade securities, those having a rating lower than BBB- as determined by Standard & Poor's or Fitch Ratings, Baa3 by Moody's Investor Services and securities not rated by any rating agency, were as follows:

June 30, December 31,
2018 2017
(\$ in thousands)

Assets:

| | | |
|-------------------------|------------|------------|
| Asset-backed securities | \$ 180,771 | \$ 225,499 |
| Bank debt | 22,566 | 14,550 |
| Corporate bonds | 53,175 | 77,086 |
| Municipal bonds | 40,432 | — |
| Sovereign debt | 9,638 | 26,134 |
| Trade claims | 3,068 | 7,496 |
| Other debt securities | 1,125 | 5,460 |
| | \$ 310,775 | \$ 356,225 |

Liabilities:

| | | |
|-----------------|-----------|-----------|
| Corporate bonds | \$ 20,181 | \$ 21,699 |
| | \$ 20,181 | \$ 21,699 |

As of June 30, 2018 and December 31, 2017, all of our ABS holdings were private-label issued, non-investment grade securities, and none of these securities were guaranteed by a government sponsored entity. As of June 30, 2018 and December 31, 2017, the largest concentration of our ABS holdings were as follows:

June 30, 2018 December 31,
2017
(\$ in thousands)

| | | | | |
|--------------------|------------|---------|------------|---------|
| Reperforming loans | \$ 109,117 | 60.4 % | \$ 160,354 | 71.1 % |
| Market place loans | 60,664 | 33.6 % | 52,584 | 23.3 % |
| Other (1) | 10,990 | 6.0 % | 12,561 | 5.6 % |
| | \$ 180,771 | 100.0 % | \$ 225,499 | 100.0 % |

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

The Company may also be exposed to non-investment grade securities held within certain investments in limited partnerships and derivatives. As a result of its investment in this type of ABS and certain other non-investment grade securities, our investment portfolio is exposed to credit risk of underlying borrowers, which may not be able to make timely payments on loans or which may default on their loans. All of these classes of ABS and certain other non-investment grade securities are sensitive to changes in interest rates and any resulting change in the rate at which borrowers sell their properties (in the case of mortgage backed securities), refinance or otherwise pre-pay loans. As an investor in these classes of ABS and certain other non-investment grade securities, we may be exposed to the credit risk of underlying borrowers not being able to make timely payments on loans or the likelihood of borrowers defaulting on their loans. In addition, we may be exposed to significant market and liquidity risks.

Liquidity Risk

Certain of our investments may become illiquid. Disruptions in the credit markets may materially affect the liquidity of certain investments, including ABS, which represent 5.8% (December 31, 2017 - 7.5%) of total cash and investments as of June 30, 2018. If we require significant amounts of cash on short notice in excess of normal cash requirements, which could include the payment of claims expenses or to satisfy a requirement of A.M. Best, in a period of market illiquidity, certain investments may be difficult to sell in a timely manner and may have to be disposed of for less than what may otherwise have been possible under normal conditions. As of June 30, 2018, we had \$2,362.0 million

(December 31, 2017 - \$2,202.4 million) of unrestricted, liquid investment assets, defined as unrestricted cash and investments and securities with quoted prices available in active markets/exchanges.

Political Risk

Investments

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

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

Reinsurance Contracts

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

Recent Accounting Pronouncements

Refer to Note 2 to our condensed consolidated financial statements for the six months ended June 30, 2018 included in Item 1 of this Quarterly Report on Form 10-Q for details of recently issued accounting standards.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, with the participation of our Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of June 30, 2018. Based upon this evaluation, our Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2018.

Changes in Internal Control over Financial Reporting

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

PART II - Other Information

ITEM 1. Legal Proceedings

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

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

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

ITEM 1A. Risk Factors

The following should be read in conjunction with, and supplements and amends the factors that may affect the Company's business, financial condition or results of operations described under "Risk Factors" in the Company's Annual Report

on Form 10-K for the year ended December 31, 2017 (the “2017 10-K”). Other than described herein, there have been no material changes to our risk factors from the risk factors previously disclosed in the 2017 10-K. This 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 Relating to Our Investment Strategy and Investment Manager

We expect to transition to a new investment management structure, which could subject us to various risks and uncertainties, any of which could impact our investment results and could materially and adversely affect our business, financial condition and results of operations.

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 (“LPA”) of Third Point Enhanced LP (“TP Fund”) with Third Point Advisors LLC (“TP GP”) and others, effective August 31, 2018. In accordance with the LPA, TP GP will serve as the general partner of TP Fund. 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 will transfer assets and related liabilities (other than certain collateral assets) from their separate accounts to TP Fund, and TP Fund will issue limited partner interests to the TPRE Limited Partners proportionate to and based on the net asset value of the assets and related liabilities transferred by each such entity on the applicable transfer date. Certain collateral assets consisting of debt securities and restricted cash will not be transferred to TP Fund. The collateral assets will be managed by Third Point LLC under a separate investment management agreement. Third Point Re BDA and Third Point Re USA will begin transferring the assets and related liabilities from their separate accounts to TP Fund on August 31, 2018, and substantially all of the assets are expected to be transferred by September 30, 2018. The Existing Agreements with TP GP and Third Point LLC will terminate on the date that all assets and related liabilities to be transferred to TP Fund under the Subscription Agreement have been transferred to TP Fund.

Pursuant to an Investment Management Agreement between Third Point LLC and TP Fund dated July 31, 2018 (the “TP Fund IMA”), Third Point LLC will be the investment manager for TP Fund. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Change in Investment Management Structure” for additional information on the new investment management structure. Following the change in our investment management structure, we may derive a significant portion of our income from our investment in TP Fund. Our operating results will therefore depend in part on the performance of TP Fund’s investment portfolio and on Third Point LLC as the investment manager of such portfolio.

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, will not have the benefit of the protections afforded by such registration and regulation.

In addition, we will be subject to various existing and new risks and uncertainties, some of which we may not be able to identify at this time. These risks and uncertainties could impact our investment results and could materially and adversely affect our business, financial condition and results of operations.

Many of the risks we are currently subject to will continue to apply under our new investment management structure. Many of the risks we are currently subject to, including those relating to our existing investment strategy and investment manager, will continue to apply to us under our new investment structure. In particular, many of the risks relating to Third Point LLC as our investment manager will continue to apply due to Third Point LLC’s role as the investment manager of TP Fund. For example, the risks relating to Third Point LLC’s strategy in managing investments, Third Point LLC’s risk management systems, and Third Point LLC’s use of hedging and derivative transactions in executing trades each generally remain applicable to us due to Third Point LLC’s management of TP Fund. In addition, economic and other risks remain applicable to us as a result of their impact on TP Fund’s investment portfolio, such as the potential impact of U.S. and global economic downturns. See “Risk Factors-Risks Relating to Our Investment Strategy and Investment Manager” in our 2017 10-K for additional factors that may affect the Company’s business, financial condition and results of operations.

Under our new investment management structure, we will not have control over TP Fund.

Under the LPA, TP GP will have 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 will delegate 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. The TPRE Limited Partners will have no right to remove TP GP as general partner of TP Fund and will not have any right to participate in the management and conduct of TP Fund.

We expect to terminate our existing investment management agreements and have entered into a new investment management agreement with Third Point LLC to govern certain collateral assets that will not be transferred to TP Fund.

Upon the completion of the transfer of assets and related liabilities from Third Point Re BDA and Third Point Re USA to TP Fund and pursuant to the Subscription Agreement, we will terminate our existing investment management agreements with Third Point LLC. On July 31, 2018, Third Point Re BDA and Third Point Re USA entered into a new investment management agreement with Third Point LLC, effective August 31, 2018, pursuant to which Third Point LLC will serve as investment manager of certain collateral assets that are not transferred to TP Fund. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Change in Investment Management Structure” for a description of the material terms of the new investment management agreement.

Under our new investment management structure, we will have limited control over the allocation and performance of TP Fund’s investment portfolio.

Pursuant to the LPA, TP GP will be required to apply certain investment guidelines to TP Fund’s investment portfolio. In addition, the TP Fund IMA will contractually obligate 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 will depend 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 our 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 will have 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.

TP GP and its 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 will 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.

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

The following table summarizes our repurchase of common shares during the three months ended June 30, 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) |
|--------------------------------|---|--|--|---|
| April 1, 2018 - April 30, 2018 | — | \$ — | — | \$176,162,892 |
| May 1, 2018 - May 31, 2018 | 1,080,056 | 13.37 | 1,080,056 | 161,725,228 |
| June 1, 2018 - June 30, 2018 | 1,605,909 | 13.79 | 1,605,909 | 139,579,994 |
| Total | 2,685,965 | \$ 13.62 | 2,685,965 | \$ 139,579,994 |

(1) Including commissions.

(2) On February 28, 2018, the Company's Board of Directors authorized the repurchase of an additional \$148.3 million common shares, which, together with the shares remaining under the share repurchase program previously authorized on May 4, 2016, will allow the Company to repurchase up to \$200.0 million more of the Company's outstanding common shares in the aggregate.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

- 3.2.1 Amended and Restated Bye-laws of Third Point Reinsurance Ltd.
- 10.33 Amended and Restated Exempted Limited Partnership Agreement of Third Point Enhanced LP, between Third Point Advisors LLC, as General Partner, Third Point Reinsurance Ltd., Third Point Reinsurance Company Ltd., Third Point Reinsurance (USA) Ltd., and the initial limited partner, dated as of July 31, 2018 (incorporated by reference to Exhibit 10.33 to the Company's Current Report on Form 8-K filed with the SEC on July 31, 2018)
- 10.34 Subscription Agreement among Third Point Enhanced LP, Third Point Reinsurance Company Ltd., and Third Point Reinsurance (USA) Ltd., dated as of July 31, 2018 (incorporated by reference to Exhibit 10.34 to the Company's Current Report on Form 8-K filed with the SEC on July 31, 2018)
- 10.35 Collateral Assets Investment Management Agreement among Third Point LLC, Third Point Reinsurance Company Ltd., and Third Point Reinsurance (USA) Ltd., dated as of July 31, 2018 (incorporated by reference to Exhibit 10.35 to the Company's Current Report on Form 8-K filed with the SEC on July 31, 2018)
- 10.36 Unsecured Revolving Credit and Letter of Credit Facility Agreement among Third Point Reinsurance Ltd., Third Point Reinsurance Company Ltd., and Third Point Reinsurance (USA) Ltd., and SunTrust Bank, SunTrust Robinson Humphrey, Inc., RBC Capital Markets and ING Capital as Joint Lead Arrangers and Joint Bookrunners, dated as of July 31, 2018 (incorporated by reference to Exhibit 10.36 to the Company's Current Report on Form 8-K filed with the SEC on July 31, 2018)
- 10.37 Termination Agreement among Third Point Reinsurance Company Ltd., Third Point Reinsurance Ltd., Third Point LLC and Third Point Advisors LLC, dated July 31, 2018 (incorporated by reference to Exhibit 10.37 to the Company's Current Report on Form 8-K filed with the SEC on July 31, 2018)
- 10.38 Termination Agreement Third Point Re (USA) Holdings Inc., Third Point Reinsurance (USA) Ltd., Third Point LLC and Third Point Advisors LLC, dated as of July 31, 2018 (incorporated by reference to Exhibit 10.38 to the Company's Current Report on Form 8-K filed with the SEC on July 31, 2018)
- 10.4.5 Amendment No. 5 to Employment Agreement between Third Point Reinsurance Ltd. and Daniel Victor Malloy III, entered into as of April 1, 2018.
- 10.9.1 Amendment No. 1 to Employment Agreement between Third Point Reinsurance Ltd. and Nicholas Campbell, entered into as of April 1, 2018.
- 31.1 Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2* Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Extension Labels Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

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

SIGNATURES

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

Third Point Reinsurance Ltd.

Date: July 31, 2018

/s/ J. Robert Bredahl
J. Robert Bredahl
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Christopher S. Coleman
Christopher S. Coleman
Chief Financial Officer
(Principal Financial Officer and Principal Accounting
Officer)