THIRD POINT REINSURANCE (USA) LTD.

Audited Consolidated Financial Statements

Years ended December 31, 2018 and 2017

THIRD POINT REINSURANCE (USA) LTD.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Building a better working world

Ernst & Young Ltd.
3 Bermudiana Road
Hamilton HM 08
P.O. Box HM 463
Hamilton HM BX
BERMUDA

Tel: +1 441 295 7000
Fax: +1 441 295 5193
ey.com

Report of Independent Auditors

The Board of Directors
Third Point Reinsurance (USA) Ltd.

We have audited the accompanying consolidated financial statements of Third Point Reinsurance (USA) Ltd., which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, shareholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Third Point Reinsurance (USA) Ltd. at December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the loss and loss adjustment expenses incurred, net and cumulative net losses and loss adjustment expenses paid for the years ending 2017 and prior which are on pages 32 through 35, and the average annual percentage payout of loss and loss adjustment expenses incurred, net which is on page 36 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young Ltd.

Hamilton, Bermuda
March 27, 2019

THIRD POINT REINSURANCE (USA) LTD.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2018 and 2017
(expressed in thousands of U.S. dollars, except per share and share amounts)

	December 31, 2018	December 31, 2017
Assets		
Investment in related party investment fund, at fair value (cost - $128,965; 2017 - N/A) (1)	$ 93,798	$ —
Equity securities, trading, at fair value (cost - N/A; 2017 - $233,134)	—	283,083
Debt securities, trading, at fair value (cost - $9,472; 2017 - $78,832)	9,243	76,085
Other investments, at fair value	—	9,934
Total investments in securities	103,041	369,102
Cash and cash equivalents	40,859	2,693
Restricted cash and cash equivalents	145,708	118,333
Due from brokers	178	40,190
Derivative assets, at fair value	—	9,261
Interest and dividends receivable	346	447
Reinsurance balances receivable	142,754	111,310
Unearned premiums ceded	111,923	116,955
Deferred acquisition costs, net	7,097	11,593
Loss and loss adjustment expenses recoverable	136,749	83,912
Due from affiliates	403	—
Other assets	4,088	131
Total assets	$ 693,146	$ 863,927
Liabilities		
Accounts payable and accrued expenses	$ 1,498	$ 11,772
Reinsurance balances payable	108,314	75,391
Unearned premium reserves	149,231	155,863
Loss and loss adjustment expense reserves	182,332	111,883
Securities sold, not yet purchased, at fair value	—	48,926
Securities sold under an agreement to repurchase	—	13,132
Due to brokers	—	150,375
Derivative liabilities, at fair value	—	1,798
Participation agreement with related party investment fund	421	—
Interest and dividends payable	—	182
Due to affiliates	—	963
Total liabilities	441,796	570,285
Commitments and contingent liabilities		
Shareholder's equity		
Common shares (par value $1.00; authorized, 1,000,000; issued and outstanding, 1,000,000 (2017: 1,000,000))	1,000	1,000
Additional paid-in capital	283,979	273,072
Retained earnings (deficit)	(33,629)	3,563
Shareholder's equity attributable to common shareholder	251,350	277,635
Noncontrolling interest in related party	—	16,007
Total shareholder's equity	251,350	293,642
Total liabilities, noncontrolling interest and shareholder's equity	$ 693,146	$ 863,927

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

Director **Director**

(1) Effective August 31, 2018, Third Point Reinsurance Ltd., Third Point Reinsurance Company Ltd. ("Third Point Re BDA") and Third Point Reinsurance (USA) Ltd. ("Third Point Re USA"), and together with Third Point Re BDA, the ("TPRE Limited Partners"), entered into the Amended and Restated Exempted Limited Partnership Agreement (the "2018 LPA") to invest in Third Point Enhanced LP ("TP Fund"), a related party investment fund. As a result, substantially all assets and related liabilities were transferred from the Company's separate account to TP Fund and the TPRE Limited Partners received limited partnership interests in TP Fund in exchange. The TPRE Limited Partners no longer directly hold their invested assets and liabilities but instead, hold an investment in TP Fund. See Notes 4 and 10 for additional information regarding the LPA and TP Fund.

THIRD POINT REINSURANCE (USA) LTD.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the years ended December 31, 2018 and 2017
(expressed in thousands of U.S. dollars)

	2018	2017
Revenues		
Gross premiums written	$ 203,548	$ 173,689
Gross premiums ceded	(152,662)	(130,267)
Net premiums written	50,886	43,422
Change in net unearned premium reserves	1,600	(3,396)
Net premiums earned	52,486	40,026
Net investment loss from investment in related party investment fund (1)	(35,167)	—
Net investment income before management and performance fees to related parties	9,741	64,989
Management and performance fees to related parties	(4,144)	(16,539)
Net investment income (loss)	(29,570)	48,450
Total revenues	22,916	88,476
Expenses		
Loss and loss adjustment expenses incurred, net	38,851	27,848
Acquisition costs, net	13,567	11,969
General and administrative expenses	9,993	13,223
Foreign exchange (gains) losses	2	(10)
Total expenses	62,413	53,030
Income (loss) before income tax (expense) benefit	(39,497)	35,446
Income tax (expense) benefit	10,087	(8,968)
Net income (loss)	(29,410)	26,478
Net income attributable to noncontrolling interest in related party	(82)	(806)
Net income (loss) available to common shareholder	$ (29,492)	$ 25,672

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

(1) See Notes 4 and 10 for additional information regarding the 2018 LPA and related management and performance fees. As a result of the 2018 LPA, the management and performance fees are presented within net investment income from investment in related party investment fund from the effective date of the LPA. Management and performance fees incurred prior to the effective date of the LPA are reflected in management and performance fees to related parties.

THIRD POINT REINSURANCE (USA) LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
For the years ended December 31, 2018 and 2017
(expressed in thousands of U.S. dollars, except share amounts)

	2018	2017
Common shares		
Balance, beginning and end of year	1,000,000	1,000,000
Common shares		
Balance, beginning and end of year	$ 1,000	$ 1,000
Additional paid-in capital		
Balance, beginning of year	273,072	273,431
Contributions of capital from parent	10,000	—
Share compensation expense	907	(359)
Balance, end of year	283,979	273,072
Retained earnings (deficit)		
Balance, beginning of year	3,563	(4,809)
Net income (loss)	(29,410)	26,478
Net income attributable to noncontrolling interest in related party	(82)	(806)
Dividends	(7,700)	(17,300)
Balance, end of year	(33,629)	3,563
Shareholder's equity attributable to common shareholder	251,350	277,635
Noncontrolling interest in related party	—	16,007
Total shareholder's equity	$ 251,350	$ 293,642

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

THIRD POINT REINSURANCE (USA) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2018 and 2017
(expressed in thousands of U.S. dollars)

	2018	2017
Operating activities		
Net income (loss)	$ (29,410)	$ 26,478
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Share compensation expense	907	(359)
Net realized and unrealized gain on investments and derivatives	(4,924)	(60,999)
Net realized and unrealized loss on investment in related party investment fund	35,167	—
Net foreign exchange (gains) losses	2	(10)
Amortization of premium and accretion of discount, net	(362)	(196)
Changes in assets and liabilities:		
Reinsurance balances receivable	(31,467)	(16,851)
Deferred acquisition costs, net	4,496	62
Unearned premiums ceded	5,032	(9,725)
Loss and loss adjustment expenses recoverable	(52,837)	(15,130)
Due from/(to) affiliates, net	(1,366)	9,535
Other assets	(3,957)	2,255
Interest and dividends receivable, net	(646)	489
Unearned premium reserves	(6,632)	13,122
Loss and loss adjustment expense reserves	70,470	20,173
Accounts payable and accrued expenses	(9,880)	8,324
Reinsurance balances payable	32,923	(3,587)
Net cash provided by (used in) operating activities	7,516	(26,419)
Investing activities		
Net redemptions from related party investment fund (1)	86,732	—
Change in participation agreement with related party investment fund	(3,871)	—
Purchases of investments	(410,530)	(447,604)
Proceeds from sales and maturities of investments	398,785	440,092
Purchases of investments to cover short sales	(105,873)	(101,246)
Proceeds from short sales of investments	99,173	132,223
Change in due from/to brokers, net	16,444	6,731
Increase (decrease) in securities sold under an agreement to repurchase	(13,132)	13,132
Net cash provided by investing activities	67,728	43,328
Financing activities		
Contributions of capital from parent	10,000	—
Change in noncontrolling interest in related party, net	(12,003)	9,885
Dividends paid to parent	(7,700)	(17,300)
Net cash used in financing activities	(9,703)	(7,415)
Net increase in cash, cash equivalents and restricted cash	65,541	9,494
Cash, cash equivalents and restricted cash at beginning of year	121,026	111,532
Cash, cash equivalents and restricted cash at end of year	$ 186,567	$ 121,026
Supplementary information		
Interest paid in cash	$ 2,831	$ 2,396
Income taxes paid in cash	$ 440	$ 298
Non-cash transfer of net investment assets to the related party investment fund (1)	$ 215,697	$ —

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

(1) Effective August 31, 2018, the Company entered into the 2018 LPA to invest in TP Fund, a related party investment fund. See Note 4 for additional information regarding the non-cash transfer of net investment assets.

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

1. Organization

Third Point Reinsurance (USA) Ltd. (the "Company" or "Third Point Re USA") was incorporated as an exempted company under the laws of Bermuda on November 21, 2014 and is registered as a Class 4 insurer under the Insurance Act 1978, as amended, and related regulations (the "Act"). Third Point Re USA is a provider of global specialty property and casualty reinsurance products and commenced its reinsurance operations in February 2015.

Third Point Re USA made an election under Section 953(d) of the U.S. Internal Revenue Code of 1986, as amended, to be taxed as a U.S. entity. Third Point Re USA prices and underwrites U.S. domiciled reinsurance business from an office in the United States. Third Point Re USA is a wholly owned subsidiary of Third Point Re (USA) Holdings, Inc. ("TPRUSA"), an intermediate holding company based in the U.S., which is a wholly owned subsidiary of Third Point Re (UK) Holdings Ltd. ("Third Point Re UK"), an intermediate holding company based in the United Kingdom. Third Point Re UK is a wholly owned subsidiary of Third Point Reinsurance Ltd ("Third Point Re"). Third Point Re operates through its two licensed reinsurance subsidiaries, Third Point Reinsurance Company Ltd. ("Third Point Re BDA") and Third Point Re USA. Third Point Re's common shares are listed on the New York Stock Exchange under the symbol "TPRE".

These consolidated financial statements include the results of the Company and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All intercompany accounts and transactions have been eliminated.

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

2. Significant accounting policies

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

Use of estimates

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

Cash, cash equivalents and restricted cash

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

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

Premium revenue recognition

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

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

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

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

Reinsurance premiums ceded

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

Reinsurance

Reinsurance recoverables include claims we paid and estimates of unpaid losses and loss adjustment expenses that are subject to reimbursement under reinsurance and retrocessional contracts. The method for determining reinsurance recoverables for unpaid losses and loss adjustment expenses involves reviewing actuarial estimates of gross unpaid losses and loss adjustment expenses to determine our ability to cede unpaid losses and loss adjustment expenses under our existing reinsurance contracts. This method is continually reviewed and updated and any resulting adjustments are reflected in earnings in the period identified. Reinsurance premiums, commissions and expense reimbursements are accounted for on a basis consistent with those used in accounting for the original policies issued and the term of the reinsurance contracts. Amounts recoverable from reinsurers for losses and loss adjustment expenses for which the Company has not been relieved of its legal obligations to the policyholder are reported as assets.

Deferred acquisition costs

Acquisition costs consist of commissions, brokerage and excise taxes that are related directly to the successful acquisition of new or renewal reinsurance contracts. These costs are deferred and amortized over the period in which the related premiums are earned. The Company evaluates the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment income is greater than expected future loss and loss adjustment expenses and acquisition costs. If a loss is probable on the unexpired portion of contracts in force, a premium deficiency loss is recognized. As of December 31, 2018, deferred acquisition costs are considered to be fully recoverable and no premium deficiency has been recorded.

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

Loss and loss adjustment expense reserves

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

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

Fair value measurement

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

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

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.

Investments

Investments - Trading

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

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

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

Investment in related party investment fund

The Company invests in TP Fund, a related party investment fund. The Company's investment in TP Fund is stated at its fair value, that generally represents the Company's proportionate interest in TP Fund as reported by the fund based on the net asset value ("NAV") provided by the fund administrator. Increases or decreases in such fair value are recorded within net investment income from investment in related party investment fund in the Company's consolidated statements of income. Realized gains or losses upon any redemptions of investments in TP Fund are calculated using the weighted average method. The Company records contributions and withdrawals related to its investments in TP Fund on the transaction date.

Derivatives

Investments

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

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

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

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

Share-based compensation

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

For share purchase options or restricted share awards granted that contain both a service and performance condition, the Company recognizes share compensation expense only for the portion of the options or restricted share awards that are considered probable of vesting. Share compensation for share purchase options or restricted share awards considered

probable of vesting are expensed over the service (vesting) period on a graded vesting basis. The probability of share purchase options or restricted share awards vesting is evaluated at each reporting period. When the share purchase options or restricted share awards are considered probable of vesting, the Company records a true up of share compensation expense from the grant date (service inception date) to the current reporting period end based on the fair value of the options or restricted share awards at the grant date.

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

Foreign currency transactions

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

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

Income taxes, withholding taxes and uncertain tax positions

The Company provides for income taxes for its operations in income tax paying jurisdictions. The Company's provision relies on estimates and interpretations of currently enacted tax laws. The Company recognizes deferred tax assets and liabilities based on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Such temporary differences are primarily due to tax basis discounts on loss and loss adjustment expense reserves and unearned premiums, deferred acquisition costs and unrealized gains (losses) on investments. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized. Any adjustments to deferred income taxes are accounted for as changes in estimates and are reflected in the consolidated statements of income (loss) in the year in which they are made. Adjustments could be material and could significantly impact earnings in the year they are recorded.

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

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

Variable interest entities

The Company accounts for variable interest entities ("VIEs") in accordance with FASB ASC Topic 810 Consolidation, which requires the consolidation of all VIEs by the primary beneficiary, that being the investor that has the power to direct the activities of the VIE and that will absorb a portion of the VIE's expected losses or residual returns that could potentially be significant to the VIE. For VIEs the Company determines it has a variable interest in, it determines whether it is the primary beneficiary of a VIE by performing an analysis that principally considers: (i) the VIE's purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders; (ii) the VIE's capital structure; (iii) the terms between the VIE and its variable interest holders and other parties involved with the VIE; (iv) which variable interest holders have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; (v) which variable interest holders have the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE; and (vi) related party relationships. The Company reassesses its initial determination of whether the Company is the primary beneficiary of a VIE upon changes in facts and circumstances that could potentially alter the Company's assessment.

Noncontrolling interests in related party

The Company consolidates the results of entities in which it has a controlling financial interest. The Company records the portion of shareholder's equity attributable to noncontrolling interests in related party as a separate line within shareholder's equity in the consolidated balance sheets. The Company records the portion of income attributable to noncontrolling interests in related party as a separate line within the consolidated statements of income (loss).

Leases

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

Comprehensive income

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

Transfer of Financial Assets

The Company accounts for transfers of financial assets as sales when it has surrendered control over the related assets. Whether control has been relinquished requires, among other things, an evaluation of relevant legal considerations and an assessment of the nature and extent of the Company's continuing involvement with the assets transferred. Gains and losses stemming from transfers reported as sales, if any, would be included as realized gains (losses) within net investment income in the accompanying consolidated statements of income.

In instances where a transfer of financial assets does not qualify for sale accounting, the accounting guidance requires that the transaction be accounted for as a collateralized borrowing. Accordingly, the related assets remain on the Company's consolidated balance sheets and continue to be reported and accounted for as if the transfer had not occurred. Cash proceeds from these transfers are reported as liabilities, with attributable interest expense recognized over the life of the related transactions.

Recent accounting pronouncements

Adoption of New Accounting Standards

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 provides a framework, through a five-step process, for recognizing revenue from customers, improves comparability and consistency of recognizing revenue across entities, industries, jurisdictions and capital markets, and requires enhanced disclosures. Certain contracts with customers are specifically excluded from the scope of ASU 2014-09, including amongst others, insurance contracts accounted for under Accounting Standard Codification

944, *Financial Services - Insurance*. ASU 2014-09 is effective for for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019, with retrospective adoption required for the comparative periods. Insurance contracts are specifically excluded from ASU 2014-09 and we do not currently have any other revenue generating activities for which this standard would be applicable. As a result, this new pronouncement did not have a material impact on the Company's consolidated financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-09, *Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The Company made the election to account for forfeitures when they occur, and therefore early adoption of ASU 2016-09 resulted in no material impact on the Company's consolidated financial statements.

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 fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption of ASU 2016-01 did not have a material impact on the Company's consolidated financial statements since all of the Company's investments are measured at fair market value as the Company's investments are classified as "trading securities" and therefore the change in unrealized gains (losses) are 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 to reduce 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, 2018. To date, the Company has not entered into any of the eight types of transactions addressed in ASU 2016-15. As a result, early adoption of this standard did not have a material impact on the Company's 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, 2018, and interim periods within fiscal years beginning after December 15, 2019. As a result of the early adoption of ASU 2016-18, the Company retrospectively classified its restricted cash and cash equivalents within the consolidated statement of cash flows and has included additional disclosures in accordance with ASU 2016-18 in its consolidated financial statements. Prior to adoption, changes in restricted cash had been presented within cash flow from investing activities. Consequently, the consolidated statement of cash flows for the year ended December 31, 2017 include adjustments to increase net cash provided by investing activities by $10.8 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. Early adoption of this new accounting standard did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

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 fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company has evaluated the impact of this guidance; it is not expected to have a material impact on the Company's consolidated financial statements as a result of the limited number of leases the Company currently has in place.

In July 2018, the FASB issued Accounting Standards Update 2018-10, *Codification Improvements to Topic 842, Leases* (ASU 2018-10) and Accounting Standards Update 2018-11, *Leases (Topic 842): Targeted improvements* (ASU 2018-11). These updates make improvements to clarify or to correct unintended application of guidance in ASC 842. Those items generally are not expected to have a significant effect on the Company. ASU 2018-10 and ASU 2018-11 will be effective when the Company adopts ASU 2016-02.

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, 2021, and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance on the Company's consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13). ASU 2018-13 is intended to improve the effectiveness of fair value measurement disclosure requirements. The amendments are effective for interim and annual periods beginning after December 15, 2019. The Company is currently evaluating the impact of this guidance on the Company's consolidated financial statements.

In October 2018, the FASB issued Accounting Standards Update 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities* (ASU 2018-17). The amendments in ASU 2018-17 for determining whether a decision-making fee is a variable interest require reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety. ASU 2018-17 is effective for public business entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. This new pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

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

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

	2018	2017
Cash and cash equivalents	$ 40,859	$ 2,693
Restricted cash securing letter of credit facilities (1)	127,559	100,792
Restricted cash securing reinsurance contracts (2)	18,149	17,541
Total cash, cash equivalents and restricted cash (3)	186,567	121,026
Restricted investments securing reinsurance contracts (2)	9,243	12,668
Total cash, cash equivalents, restricted cash and restricted investments	$ 195,810	$ 133,694

(1) Restricted cash securing letter of credit facilities primarily pertains to letters of credit issued to clients and cash securing these obligations that the Company will not be released from until the underlying reserves have been settled. The time period for which the Company expects these letters of credit to be in place varies from contract to contract, but can last several years.

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

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

4. Investments

On July 31, 2018, Third Point Re, Third Point Re BDA and Third Point Re USA (the "TPRE Limited Partners") entered into the Amended and Restated Exempted Limited Partnership Agreement (the "2018 LPA") of TP Fund with Third Point Advisors LLC ("TP GP") and others, effective August 31, 2018. In accordance with the 2018 LPA, TP GP serves as the general partner of TP Fund. TP GP is beneficially owned by Daniel S. Loeb, a founder of the Company, and certain members of his family. Pursuant to the investment management agreement between Third Point LLC and TP Fund, dated July 31, 2018 (the "TP Fund IMA"), Third Point LLC is the investment manager for TP Fund (the "Investment Manager"). In addition, on July 31, 2018, the TPRE Limited Partners, and TP Fund executed a Subscription Agreement pursuant to which the TPRE Limited Partners transferred certain net investment assets and related liabilities (collectively referred to as the "LP Transaction") from their separate accounts to TP Fund, and TP Fund issued limited partner interests to the TPRE Limited Partners proportionate to and based on the net asset value transferred by each such entity on the applicable transfer date. Certain collateral assets consisting of debt securities and restricted cash were not transferred to TP Fund but are also managed by Third Point LLC under the Collateral Assets IMA, as defined below. Substantially all of the net investment assets were transferred as of September 4, 2018. The Amended and Restated Joint Venture and Investment Management Agreement dated June 22, 2016 between TPRUSA, Third Point Re USA, Third Point LLC and TP GP ("JV Agreement") will be terminated on the date that all net investment assets have been transferred to TP Fund under the Subscription Agreement. The TP Fund investment strategy, as implemented by Third Point LLC, is intended to achieve superior risk-adjusted returns by deploying capital in both long and short investments with favorable risk/reward characteristics across select asset classes, sectors and geographies. Third Point LLC identifies investment opportunities via a bottom-up, value-oriented approach to single security analysis supplemented by a top-down view of portfolio and risk management. Third Point LLC seeks dislocations in certain areas of the capital markets or in the pricing of particular securities and supplements single security analysis with an approach to portfolio construction that includes sizing each investment based on upside/downside calculations, all with a view towards appropriately positioning and managing overall exposures.

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

On August 30, 2018, Third Point Re BDA and Third Point Re USA entered into a Participation Agreement with TP Fund ("the Participation Agreement") pursuant to which Third Point Re BDA and Third Point Re USA granted to TP Fund all of the rights, benefits, liabilities, duties and obligations of all net investment assets that had not yet been transferred to TP Fund pursuant to the Subscription Agreement as of the effective date. For the net investment assets that were not transferred on September 4, 2018, the TPRE Limited Partners received limited partnership interests in TP Fund in exchange for transferring the rights, benefits, liabilities, duties and obligations for those net investment assets to TP Fund under the Participation Agreement. Third Point Re BDA and Third Point Re USA are obligated to transfer any remaining net investment assets to TP Fund and a liability corresponding to the estimated fair value of net investment assets not transferred at September 4, 2018 has been recorded in the Company's consolidated balance sheet. For the period from September 4, 2018 to December 31, 2018, $0.4 million of net investment loss in the Company's separate accounts was subject to the Participation Agreement and as a result, is included in net investment loss from investment in related party investment fund in the Company's consolidated statements of income. As of December 31, 2018, the Company had $0.4 million of net investment assets that it had agreed to transfer pursuant to the Subscription Agreement but that had not been transferred to TP Fund, primarily consisting of cash and balances due from brokers.

Prior to transferring the financial assets and liabilities from the joint ventures to the TP Fund, the Company directly owned the investments held in its separate accounts that were managed by Third Point LLC. In addition, the joint venture created through the JV Agreement was consolidated and the Company presented all of the underlying assets and liabilities held in the Company's name on the Company's consolidated balance sheets and relevant footnote disclosures.

As a result of the changes described above, the Company's investment in TP Fund has been presented on the consolidated balance sheets as an investment in a related party investment fund. The transfer of the net investment assets was accounted for as a sale in accordance with the Company's accounting policy for transfers of financial assets. Third Point Re BDA and Third Point Re USA received limited partnership interests in TP Fund corresponding to the fair value of the net investment assets transferred. The Company does not have continuing involvement with the transferred assets. There were no net gains or losses resulting from the transfer of net investment assets. For the year ended December 31, 2018, $223.9 million of net investment assets was transferred from the Company's separate investment account to TP Fund in exchange for limited partnership interests of the same amount, resulting in no gains or losses.

The following is a summary of the net investments managed by Third Point LLC as of December 31, 2018 and 2017:

	2018	2017
Assets		
Total investments in securities, including investment in related party investment fund	$ 103,041	$ 369,102
Cash and cash equivalents	263	4
Restricted cash and cash equivalents	145,708	118,333
Due from brokers	178	40,190
Derivative assets, at fair value	—	9,261
Interest and dividends receivable	346	447
Total assets	249,536	537,337
Liabilities and noncontrolling interest in related party		
Accounts payable and accrued expenses	20	794
Securities sold, not yet purchased	—	48,926
Securities sold under an agreement to repurchase	—	13,132
Due to brokers	—	150,375
Derivative liabilities, at fair value	—	1,798
Participation agreement with related party investment fund	421	—
Interest and dividends payable	—	182
Noncontrolling interest in related party	—	16,007
Total liabilities and noncontrolling interest in related party	441	231,214
Total net investments managed by Third Point LLC	$ 249,095	$ 306,123

(1) See Note 15 for additional information.

5. Fair value measurements

The following table presents the Company's investments, categorized by the level of the fair value hierarchy as of December 31, 2018:

	December 31, 2018			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
U.S. Treasury securities	$ —	$ 9,243	$ —	$ 9,243
Total debt securities	$ —	$ 9,243	$ —	9,243
Investments in funds valued at NAV				93,798
Total assets				$ 103,041

Debt securities

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

Investments in funds valued at NAV

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

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

Prior to the change in the investment account structure described above, the Company held other types of asset classes.

The following table presents the Company's investments, categorized by the level of the fair value hierarchy as of December 31, 2017:

	December 31, 2017			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Equity securities	$ 272,685	$ 2,594	$ —	$ 275,279
Private common equity securities	—	—	595	595
Private preferred equity securities	—	—	7,209	7,209
Total equities	272,685	2,594	7,804	283,083
Asset-backed securities	—	44,062	3,563	47,625
Bank debt	—	1,729	—	1,729
Corporate bonds	—	8,351	1,231	9,582
U.S. Treasury securities	—	12,668	—	12,668
Sovereign debt	—	3,149	—	3,149
Other debt securities	—	619	713	1,332
Total debt securities	—	70,578	5,507	76,085
Options	237	358	—	595
Rights and warrants	—	21	56	77
Real estate	—	—	6,831	6,831
Trade claims	—	891	—	891
Total other investments	237	1,270	6,887	8,394
Derivative assets (free standing)	—	9,261	—	9,261
	$ 272,922	$ 83,703	$ 20,198	376,823
Investments in funds valued at NAV				1,540
Total assets				$ 378,363
Liabilities				
Equity securities	$ 45,223	$ —	$ —	$ 45,223
Corporate bonds	—	2,695	—	2,695
Options	321	687	—	1,008
Total securities sold, not yet purchased	45,544	3,382	—	48,926
Derivative liabilities (free standing)	—	1,550	248	1,798
Total liabilities	$ 45,544	$ 4,932	$ 248	$ 50,724

During the years ended December 31, 2018 and 2017, the Company made $nil reclassifications of assets or liabilities between Levels 1 and 2.

As the Company's investment manager under the prior investment structure, Third Point LLC had a formal valuation policy that set 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 was updated and approved at least on an annual basis by Third Point LLC's valuation committee (the "Committee"). The Committee met monthly and was comprised of officers and employees who were senior business management personnel of Third Point LLC. The Committee's role was to review and verify the propriety and consistency of the valuation methodology to determine the fair value of investments. The Committee also reviewed any due diligence performed and approved any changes to current or potential external pricing vendors.

Equity securities

Securities listed on a national securities exchange or quoted on NASDAQ were valued at their last sales price as of the last business day of the period. Listed securities with no reported sales on such date and over-the-counter ("OTC")

securities were valued at their last closing bid price if held long by the Company, and last closing ask price if held short by the Company. As of December 31, 2017, securities valued at $48.6 million, representing 12.9% of investments in securities and derivative assets, and $0.2 million, representing 0.5% of securities sold, not yet purchased and derivative liabilities, were valued based on broker quotes.

As of December 31, 2017, the Company had $17.1 million of investments fair valued by Third Point LLC, representing approximately 4.5% of total investments in securities and derivative assets. 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.

Debt securities

The key inputs for corporate, government and sovereign bond valuation were coupon frequency, coupon rate and underlying bond spreads. The key inputs for asset-backed securities ("ABS") were yield, probability of default, loss severity and prepayment.

Other investments

Private securities, real estate and related debt investments are those not registered for public sale and were 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 included market approach, last transaction analysis, liquidation analysis and/or using discounted cash flow models where the significant inputs could include but were 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 and would provide written reports documenting their recommended valuation as of the determination date for the specified investments.

Free standing derivatives

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

Key inputs for OTC valuations varied based on the type of underlying security on which the contract was written:

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

The total change in unrealized gains (losses) on equity and debt securities held at the year ended December 31, 2018 were $nil and $(0.1) million, respectively (2017 - $39.3 million and $(1.6) million, respectively).

The following table presents the reconciliation of all investments measured at fair value using Level 3 inputs for the years ended December 31, 2018 and 2017:

	January 1, 2018	Transfers in to (out of) Level 3	Purchases	Sales [1]	Realized and Unrealized Gains(Losses) [2]	December 31, 2018
Assets						
Private common equity securities	$ 595	$ —	$ 69	$ (585)	$ (79)	$ —
Private preferred equity securities	7,209	—	4,647	(11,302)	(554)	—
Asset-backed securities	3,563	—	4,399	(7,686)	(276)	—
Corporate bonds	1,231	—	155	(1,453)	67	—
Other debt securities	713	—	—	(913)	200	—
Rights and warrants	56	—	—	(78)	22	—
Real estate	6,831	—	—	(6,817)	(14)	—
Total assets	$ 20,198	$ —	$ 9,270	$ (28,834)	$ (634)	$ —
Liabilities						
Derivative liabilities (free standing)	$ (248)	$ —	$ —	$ 214	$ 34	$ —
Total liabilities	$ (248)	$ —	$ —	$ 214	$ 34	$ —

	January 1, 2017	Transfers in to (out of) Level 3	Purchases	Sales	Realized and Unrealized Gains(Losses) [2]	December 31, 2017
Assets						
Private common equity securities	$ 595	$ —	$ —	$ —	$ —	$ 595
Private preferred equity securities	6,274	—	578	(376)	733	7,209
Asset-backed securities	2,338	3,371	9,231	(9,638)	(1,739)	3,563
Bank debt	1,107	—	—	(1,518)	411	—
Corporate bonds	1,154	—	182	(93)	(12)	1,231
Other debt securities	—	—	637	—	76	713
Rights and warrants	—	—	—	—	56	56
Real estate	—	—	6,770	—	61	6,831
Total assets	$ 11,468	$ 3,371	$ 17,398	$ (11,625)	$ (414)	$ 20,198
Liabilities						
Derivative liabilities (free standing)	$ (176)	$ —	$ —	$ (30)	$ (42)	$ (248)
Total liabilities	$ (176)	$ —	$ —	$ (30)	$ (42)	$ (248)

(1) Sales of investments measured at fair value using Level 3 inputs include the impact of the LP Transaction as described in Note 4.

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

Total change in unrealized gains (losses) on fair value of assets using significant unobservable inputs (Level 3) held at the year ended December 31, 2018 was $nil (2017 - $(1.1) million).

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

Prior to the change in the Company's investment account structure, the Company used the following significant unobservable inputs in determining the fair value of the Level 3 investments held by the Company as of December 31,

2017. Level 3 investments not presented in the table below were insignificant or do not have any unobservable inputs to disclose, as they were valued primarily using dealer quotes or at cost.

December 31, 2017				
Assets	**Fair value**	**Valuation technique**	**Unobservable input**	**Range**
Private equity investments	$ 4,712	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	55	Discounted cash flow	Discount rate	13.5%
			Time to exit	5.0 years
		Market approach	Multiple	3.8 - 4.6x

For the year ended December 31, 2017, there were no changes in the valuation techniques as they relate to the above.

6. Securities sold under an agreement to repurchase

Prior to the change in the Company's investment account structure described in Note 4, the Company had entered into repurchase and reverse repurchase agreements with financial institutions in which the financial institution agreed to resell or repurchase securities and the Company agreed to repurchase or resell such securities at a mutually agreed price upon maturity. These agreements were generally collateralized by corporate or government bonds or asset-backed securities. As the Company held only repurchase agreements as of December 31, 2017, these positions were not impacted by counterparty netting agreements. Interest payable and receivable related to these transactions were included in interest payable and receivable in the consolidated balance sheets. Generally, repurchase and reverse repurchase agreements matured within 30 to 90 days. The Company may lend securities for securities lending transactions or pledged securities and/or cash for securities borrowed transactions. The value of any securities loaned was reflected in investments in securities. Any collateral received was reflected in due to brokers in the consolidated balance sheets as of December 31, 2017.

As a result of the investment account structure change, there were no repurchase and reverse repurchase agreements directly held by the Company as of December 31, 2018. The following table presents the contractual maturity of the repurchase agreements by class of collateral pledged as of December 31, 2017:

December 31, 2017	Overnights and continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
Repurchase agreements					
Asset-backed securities	$ —	$ 10,774	$ 2,358	$ —	$ 13,132

7. Due from/to brokers

Prior to the change in the Company's investment account structure described in Note 4, the Company held substantially all of its investments through prime brokers pursuant to agreements between the Company and each prime broker. As of December 31, 2018, a net balance of $0.2 million was not transferred to TP Fund and as a result, remains on the Company's consolidated balance sheet and is subject to the Participation Agreement as described in Note 4.

The brokerage arrangements differed from broker to broker, but generally cash and investments in securities were available as collateral against investments in securities sold, not yet purchased and derivative positions, if required. As of December 31, 2018 and 2017, the Company's due from/to brokers were comprised of the following:

	2018	2017
Due from brokers		
Cash held at brokers	$ 7	$ 38,982
Receivable from unsettled trades (1)	171	1,208
	$ 178	$ 40,190
Due to brokers		
Borrowing from prime brokers	$ —	$ 149,060
Payable from unsettled trades	—	1,315
	$ —	$ 150,375

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

Due from/to brokers included 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 included cash collateral received and posted from OTC and repurchase agreement counterparties. As of December 31, 2017, the Company's borrowing from prime brokers included a total non-U.S. currency balance of $9.7 million.

Prior to the investment account structure change, the Company used prime brokerage borrowing arrangements to provide collateral for its letter of credit facilities and to fund trust accounts securing certain reinsurance contracts. As of December 31, 2017, the Company had $131.0 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 were borrowed through committed facilities with terms of up to 90 days, secured by assets of the Company held by the prime broker, and incurred interest based on the Company's negotiated rates. This interest expense was reflected in net investment income (loss) in the consolidated statements of income (loss).

8. Derivatives

Prior to the change in the Company's investment account structure described in Note 4, the Company entered into derivative contracts. The following tables identify the listing currency, fair value and notional amounts of derivative instruments included in the consolidated balance sheets as of December 31, 2017, categorized by primary underlying risk. Balances are presented on a gross basis.

	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	$ 988	$ 6,226
Total Return Swaps - Long Contracts	EGP	3,277	3,277
Equity Price			
Contracts for Differences - Long Contracts	BRL/CHF/EUR/USD	2,148	19,755
Contracts for Differences - Short Contracts	NOK/SEK	539	3,406
Total Return Swaps - Long Contracts	BRL/USD	2,014	12,070
Interest Rates			
Interest Rate Swaptions	JPY	71	8,528
Foreign Currency Exchange Rates			
Foreign Currency Forward Contracts	HKD/JPY	224	61,845
Total Derivative Assets		$ 9,261	$ 115,107

	Listing currency [1]	Fair Value	Notional Amounts [2]
Derivative Liabilities by Primary Underlying Risk			
Credit			
Credit Default Swaps - Protection Purchased	USD	$ 151	$ 2,398
Credit Default Swaps - Protection Sold	USD	248	279
Equity Price			
Contracts for Differences - Long Contracts	BRL/EUR/USD	276	11,694
Contracts for Differences - Short Contracts	DKK/USD	99	1,509
Total Return Swaps - Long Contracts	BRL/USD	8	5,346
Total Return Swaps - Short Contracts	USD	232	6,553
Interest Rates			
Interest Rate Swaptions	JPY	9	8,467
Foreign Currency Exchange Rates			
Foreign Currency Forward Contracts	BRL/CHF/CNH/EUR/ HKD/SAR	775	71,670
Total Derivative Liabilities (free standing)		$ 1,798	$ 107,916

(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.

The following table sets forth, by major risk type, the Company's realized and unrealized gains (losses) relating to derivatives for the years ended December 31, 2018 and 2017. Realized and unrealized gains (losses) for the year ended December 31, 2018 includes activity in the separate accounts up to the date of change in the investment account structure described in Note 4. Realized and unrealized gains (losses) related to free standing derivatives are included in net investment income (loss) in the consolidated statements of income (loss). Realized and unrealized gains (losses) related to embedded derivatives are included in other expenses in the consolidated statements of income (loss).

	2018		2017	
Free standing Derivatives - Primary Underlying Risk	**Realized Gain (Loss)**	**Unrealized Gain (Loss)**	**Realized Gain (Loss)**	**Unrealized Gain (Loss)***
Credit				
Credit Default Swaps - Protection Purchased	$ (259)	$ (51)	$ (868)	$ 242
Credit Default Swaps - Protection Sold	(44)	94	84	(101)
Total Return Swaps - Long Contracts	449	(261)	97	261
Equity Price				
Contracts for Differences - Long Contracts	3,977	(1,872)	7,497	1,638
Contracts for Differences - Short Contracts	541	(440)	320	588
Total Return Swaps - Long Contracts	2,115	(2,007)	2,275	1,955
Total Return Swaps - Short Contracts	(2,098)	231	(2,008)	(86)
Interest Rates				
Interest Rate Swaps	—	—	(410)	(230)
Interest Rate Swaptions	(236)	161	(44)	(270)
Sovereign Future Options - Long Contracts	50	—	—	—
Sovereign Future Options - Short Contracts	6	—	—	—
Sovereign Futures - Long Contracts	78	—	—	—
Sovereign Futures - Short Contracts	(139)	—	(1,022)	85
Total Return Swaps - Long Contracts	(923)	—	—	—
Foreign Currency Exchange Rates				
Foreign Currency Forward Contracts	(170)	552	(1,352)	(369)
Foreign Currency Future Options - Purchased	(14)	—	—	—
Foreign Currency Options - Purchased	629	—	(851)	120
Foreign Currency Options - Sold	(95)	—	287	(11)
	$ 3,867	$ (3,593)	$ 4,005	$ 3,822

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

The Company's derivative contracts were subject to International Swaps and Derivatives Association ("ISDA") Master Agreements and other similar agreements that contained 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 obtained/provided collateral from/to various counterparties for OTC derivative and futures contracts in accordance with bilateral collateral agreements. During the period ended December 31, 2017, no termination events were triggered under the ISDA Master Agreements. As of December 31, 2017, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position was $0.5 million for which the Company posted collateral in the form of cash of $12.5 million in the normal course of business. Similarly, the Company held collateral in cash from certain counterparties as of December 31, 2017. If the credit-risk-related contingent features underlying these instruments had been triggered as of December 31, 2017 and the Company had to settle these instruments immediately, no additional amounts would be required to be posted that would exceed the settlement amounts of open derivative contracts or in the case of cross margining relationships, the assets in the Company's prime brokerage accounts were sufficient to offset the derivative liabilities.

The Company's derivatives did not qualify as hedges for financial reporting purposes and were recorded in the consolidated financial statements on a gross basis and not offset against any collateral pledged or received. Pursuant to ISDA master agreements and other counterparty agreements, the Company and its counterparties typically had 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 had the right to offset against payments owed to the defaulting party or collateral held by the non-defaulting party.

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

	Amounts not Offset in the Consolidated Balance Sheet			
December 31, 2017 Derivative Contracts	**Gross Amount [1]**	**Financial Instruments**	**Cash Collateral Received**	**Net Amount**
Financial assets, derivative assets and collateral received				
Counterparty 1	$ 3	$ 3	$ —	$ —
Counterparty 2	166	88	—	78
Counterparty 3	4,803	341	—	4,462
Counterparty 4	308	308	—	—
Counterparty 5	1,813	809	—	1,004
Counterparty 6	699	1	—	698
Counterparty 7	166	—	—	166
Counterparty 8	1,575	382	—	1,193
Counterparty 9	86	86	—	—
	$ 9,619	$ 2,018	$ —	$ 7,601

	Amounts not Offset in the Consolidated Balance Sheet			
December 31, 2017 Derivative Contracts	**Gross Amount [2]**	**Financial Instruments**	**Cash Collateral Pledged**	**Net Amount**
Financial liabilities, derivative liabilities and collateral pledged				
Counterparty 1	$ 159	$ 3	$ 156	$ —
Counterparty 2	88	88	—	—
Counterparty 3	341	341	—	—
Counterparty 4	452	308	144	—
Counterparty 5	809	809	—	—
Counterparty 6	1	1	—	—
Counterparty 8	382	382	—	—
Counterparty 9	149	86	63	—
Counterparty 15	104	—	—	104
	$ 2,485	$ 2,018	$ 363	$ 104
Securities sold under an agreement to repurchase				
Counterparty 4	$ 13,132	$ 13,132	$ —	$ —
	$ 13,132	$ 13,132	$ —	$ —

(1) The gross amounts of assets presented in the consolidated balance sheets presented above includes the fair value of derivative contract assets as well as gross OTC option contract assets of $0.4 million included in other investments in the consolidated balance sheets.

(2) The gross amounts of liabilities presented in the consolidated balance sheets presented above includes the fair value of derivative contract liabilities as well as gross OTC option contract liabilities of $0.7 million included in securities sold, not yet purchased in the consolidated balance sheets.

9. Loss and loss adjustment expense reserves

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

	2018	2017
Case loss and loss adjustment expense reserves	$ 45,046	$ 34,534
Incurred but not reported loss and loss adjustment expense reserves	137,286	77,349
	$ 182,332	$ 111,883

Reserving methodologies

The Company's methodology for reserving for its reinsurance contracts and determining its loss and loss adjustment expense reserves, including incurred but not reported reserves, is as follows:

The Company's actuaries perform an actuarial projection of the Company's reserves quarterly and have a third-party actuarial review performed periodically. All reserves are estimated on an individual contract basis; there is no aggregation of contracts for projection of ultimate loss or reserves. The Company typically initially reserves individual contracts to the expected loss and loss expense ratio in its pricing analysis. As loss information is received from cedents, the Company incorporates other actuarial methods into its projection of ultimate losses and, hence, reserves.

In the Company's pricing analysis, there is a significant amount of information unique to the individual client and, when necessary, the analysis is supplemented with industry data. Industry data primarily takes the form of paid and incurred development patterns from statutory financial statements and statistical agencies. For the Company's actuarial reserve projections, the relevant information received from clients includes premium estimates, paid loss and loss adjustment expenses and case reserves. The Company's actuaries review the data for reasonableness and research any noted anomalies. On each contract, the Company's actuaries compare the expected paid and incurred amounts at each quarter-end with actual amounts reported. The Company's actuaries also compare premiums received with projected premium receipts at each quarter end.

There is a time lag between when a covered loss event occurs and when it is reported to the Company's cedents. There is also a time lag between when clients pay claims, establish case reserves and re-estimate their reserves, and when they notify the Company of the payments and/or new or revised case reserves. This reporting lag is typically 60 to 90 days after the end of a reporting period, but can be longer in some cases. The Company's actuaries use techniques that adjust for this reporting lag. While it would be unusual to have lags that extend beyond 90 days, the Company's actuarial techniques are designed to adjust for such a circumstance.

The principal actuarial methods (and associated key assumptions) used to perform the Company's quarterly loss reserve analysis may include one or more of the following methods:

A priori loss ratio method

To estimate ultimate losses using the a priori loss ratio method, the Company multiplies earned premiums by an expected loss ratio. The expected loss ratio is selected as part of the pricing and utilizes individual client data, supplemented by industry data where necessary. This method is often useful when there is limited historical data due to few losses being incurred.

Paid loss development method

This method estimates ultimate losses by calculating past paid loss development factors and applying them to exposure periods with further expected paid loss development. The paid loss development method assumes that losses are paid at a rate consistent with the historical rate of payment. It provides an objective test of reported loss projections because paid losses contain no case reserve estimates. For some lines of business, claim payments are made slowly and it may take many years for claims to be fully reported and settled.

Incurred loss development method

This method estimates ultimate losses by using past incurred loss development factors and applying them to exposure periods with further expected incurred loss development. Since incurred losses include payments and case reserves, changes in both of these amounts are incorporated in this method. This approach provides a larger volume of data to estimate ultimate losses than paid loss methods. Thus, incurred loss patterns may be less varied than paid loss patterns, especially for coverages that have historically been paid out over a long period of time but for which claims are incurred relatively early and case loss reserve estimates are established.

Bornhuetter-Ferguson paid and incurred loss methods

These methods are a weighted average of the a priori loss ratio method and the relevant development method. The weighting between the two methods depends on the maturity of the business. This means that for the more recent years a greater weight is placed on the a priori loss ratio method, while for the more mature years a greater weight is placed on the development methods. These methods avoid some of the distortions that could result from a large development factor being applied to a small base of paid or incurred losses to calculate ultimate losses. This method will react slowly if actual paid or incurred loss experience develops differently than historical paid or incurred loss experience because of major changes in rate levels, retentions or deductibles, the forms and conditions of coverage, the types of risks covered or a variety of other factors.

IBNR to outstanding ratio method

This method is used in selected cases typically for very mature years that still have open claims. This method assumes that the estimated future loss development is indicated by the current level of case reserves.

Key to the projection of ultimate loss is the amount of credibility or weight assigned to each actuarial method. Each method has advantages and disadvantages, and those can change depending on numerous factors including the reliability of the underlying data. The selection and weighting of the projection methods is a highly subjective process. In order to achieve a desirable amount of consistency from study to study and between contracts, the Company's actuaries have implemented a weighting scheme that incorporates numerous "rules" for the weighting of actuarial methods. These rules attempt to effectively standardize the process used for selecting weights for the various methods. There are numerous circumstances where the rules would be modified for specific reinsurance contracts; examples would include a large market event or new information on historical years that may cause us to increase our a priori loss ratio.

As part of the Company's quarterly reserving process, loss-sensitive contingent expenses (e.g., profit commissions, sliding-scale ceding commissions, etc.) are calculated on an individual contract basis. These expense calculations are based on the updated ultimate loss estimates derived from the Company's quarterly reserving process.

The Company's reserving methodologies use a loss reserving model that calculates a point estimate for the Company's ultimate losses. Although the Company believes that its assumptions and methodologies are reasonable, the ultimate payments may vary, potentially materially, from the estimates that the Company has made.

There were no significant changes made to the Company's methodology for calculating loss and loss adjustment reserves for the year ended December 31, 2018.

Roll forward of loss and loss adjustment expense reserves

The following table represents the activity in the loss and loss adjustment expense reserves for the years ended December 31, 2018 and 2017:

	2018	2017
Gross reserves for loss and loss adjustment expenses, beginning of year	$ 111,883	$ 91,709
Less: loss and loss adjustment expenses recoverable, beginning of year	(83,912)	(68,782)
Net reserves for loss and loss adjustment expenses, beginning of year	27,971	22,927
Increase (decrease) in net loss and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	38,876	25,560
Prior years	(25)	2,288
Total incurred loss and loss adjustment expenses	38,851	27,848
Net loss and loss adjustment expenses paid in respect of losses occurring in:		
Current year	(9,977)	(9,191)
Prior years	(11,241)	(13,614)
Total net paid losses	(21,218)	(22,805)
Foreign currency translation	(21)	1
Net reserves for loss and loss adjustment expenses, end of year	45,583	27,971
Plus: loss and loss adjustment expenses recoverable, end of year	136,749	83,912
Gross reserves for loss and loss adjustment expenses, end of year	$ 182,332	$ 111,883

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 minimal net decrease in prior years' reserves for the year ended December 31, 2018 includes $0.4 million of net favorable reserve development related to decreases in loss reserve estimates and $0.4 million increase in loss reserves resulting from increases in premium earnings estimates on certain contracts. The net increase in loss reserves as well as the impact of any offsetting changes in acquisition costs as a result of sliding scale or profit commissions is explained as follows:

- The $0.4 million of net favorable prior years' reserve development for the year ended December 31, 2018 was accompanied by net increases of $0.4 million in acquisition costs, resulting in a minimal improvement in the net underwriting results.

- The $0.4 million net increase in loss and loss adjustment expenses incurred resulting from increases in premium earnings estimates was accompanied by a $0.1 million increase in acquisition costs, for a total of $0.5 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 $0.6 million. The increase in prior period earned premium was the result of changes in ultimate premium and earning pattern estimates. The net impact was a $0.1 million improvement in the net underwriting results for the year ended December 31, 2018.

- In total, the change in net underwriting loss for prior periods due to loss reserve development and adjustments to premium earnings estimates resulted in a $0.1 million improvement in the net underwriting results for the year ended December 31, 2018.

The $2.3 million increase in prior years' reserves, for the year ended December 31, 2017 includes $1.1 million of net adverse reserve development related to increases in loss reserve estimates and $1.2 million of additional loss reserves resulting from increases in premium earnings estimates on certain contracts. The net increase in loss reserves as well as the impact of any offsetting changes in acquisition costs as a result of sliding scale or profit commissions is explained as follows:

- The $1.1 million of net adverse prior years' reserve development for the year ended December 31, 2017 was accompanied by net decreases of $0.3 million in acquisition costs, resulting in a net increase of $0.8 million in net underwriting loss, primarily due to:
    - $0.8 million of net adverse underwriting loss development relating to non-standard auto contracts, primarily due to the inability of cedents to promptly react to increasing frequency and severity trends, resulting in underpriced business and adverse selection;
    - $0.3 million of net adverse underwriting loss development relating to our Texas homeowners' reinsurance contracts, primarily as a result of our cedents to promptly react to increasing severity trends, resulting in underpriced business and adverse selection; partially offset by
    - $0.3 million of net favorable underwriting loss development relating to several workers' compensation contracts written from 2012 to 2014, driven by better than expected loss experience.
- The $1.2 million increase in loss and loss adjustment expenses incurred related to the increase in premium earnings estimates on certain contracts was accompanied by a $0.5 million increase in acquisition costs, for a total of $1.7 million increase in loss and loss adjustment expenses incurred and acquisition costs. The related increase in earned premium related to the increase in premium estimates was $1.7 million, resulting in a minimal improvement to the net underwriting results for the year ended December 31, 2017.
- In total, the change in net underwriting loss for prior periods due to loss reserve development and adjustments to premium earnings estimates was an increase in net underwriting loss of $0.8 million for the year ended December 31, 2017.

Incurred and paid development tables by accident year

The Company manages its business on the basis of one operating segment, property and casualty reinsurance. The Company has disaggregated its loss information presented in the tables below by the different lines of business included in this segment. The Company has presented the below development tables for all accident years shown using exchange rates as at December 31, 2018. All accident years prior to the current year have been restated and presented using the current year exchange rate.

The Company's loss reserve analysis is based primarily on underwriting year data. The preparation of accident year development tables requires an allocation of underwriting year data to the corresponding accident years. For instance, a contract written in one particular underwriting year may have exposure to losses from two or more accident years. These allocations are done using accident year loss payment and reporting patterns, along with premium earnings patterns.These patterns are derived from either company-specific or industry historical loss data, depending on availability and applicability. The Company believes that its allocations are reasonable; however, to the extent that the Company's allocation procedure for loss and loss adjustment expenses incurred differs from actual historical development, the actual loss development may differ materially from the loss development presented.

As described in the roll forward of loss and loss adjustment expense reserves section above, changes in the Company's loss and loss adjustment expense reserves result from both re-estimating loss reserves as well as changes in premium estimates. In addition, many of the Company's contracts have sliding scale or profit commissions whereby loss reserve development can be offset by changes in acquisition costs. See additional disclosure above on the net impact on underwriting income after considering the impact of changes in premium estimates and the impact of acquisition costs for the years ended December 31, 2018 and 2017.

Property and Casualty Reinsurance

The following tables provide a breakdown of the Company's loss and loss adjustment expenses incurred, net and net loss and loss adjustment expenses paid by accident year by line of business for the Company's prospective reinsurance contracts for the year ended December 31, 2018. The information related to loss and loss adjustment expenses incurred, net and net loss and loss adjustment expenses paid for the years ended December 31, 2015 through 2017 is presented as supplementary information and is unaudited:

Property

	Loss and loss adjustment expenses incurred, net				
Accident year	**2015**	**2016**	**2017**	**2018**	**IBNR loss and LAE reserves, net**
	<---------- Unaudited ---------->				
2015	$ 1,663	$ 1,571	$ 1,637	$ 1,612	$ 9
2016	—	3,337	3,602	3,476	109
2017	—	—	4,206	4,197	265
2018	—	—	—	4,579	907
Total				$ 13,864	$ 1,290

	Cumulative net losses and loss adjustment expenses paid			
Accident year	**2015**	**2016**	**2017**	**2018**
	<---------- Unaudited ---------->			
2015	$ 392	$ 1,376	$ 1,486	$ 1,524
2016	—	1,562	2,725	3,124
2017	—	—	2,406	3,489
2018	—	—	—	3,250
Total				$ 11,387
Property - net reserves for loss and loss adjustment expenses, end of year				$ 2,477

Workers' Compensation

	Loss and loss adjustment expenses incurred, net				
Accident year	**2015**	**2016**	**2017**	**2018**	**IBNR loss and LAE reserves, net**
	<---------- Unaudited ---------->				
2015	$ 1,767	$ 1,555	$ 1,556	$ 1,422	$ 374
2016	—	7,863	7,641	7,084	2,235
2017	—	—	7,609	7,458	3,225
2018	—	—	—	3,175	2,597
Total				$ 19,139	$ 8,431

	Cumulative net losses and loss adjustment expenses paid			
Accident year	**2015**	**2016**	**2017**	**2018**
	<---------- Unaudited ---------->			
2015	$ 16	$ 416	$ 571	$ 809
2016	—	531	2,372	3,446
2017	—	—	674	2,475
2018	—	—	—	215
Total				$ 6,945
Workers' Compensation - net reserves for loss and loss adjustment expenses, end of year				$ 12,194

Auto

Loss and loss adjustment expenses incurred, net					
Accident year	**2015**	**2016**	**2017**	**2018**	**IBNR loss and LAE reserves, net**
	<---------- Unaudited ---------->				
2015	$ 7,991	$ 9,142	$ 9,210	$ 9,241	$ 31
2016	—	18,801	20,807	20,944	374
2017	—	—	11,349	11,877	583
2018	—	—	—	11,202	3,115
Total				$ 53,264	$ 4,103

Cumulative net losses and loss adjustment expenses paid				
Accident year	**2015**	**2016**	**2017**	**2018**
	<---------- Unaudited ---------->			
2015	$ 2,291	$ 8,276	$ 8,765	$ 9,073
2016	—	9,011	18,775	20,006
2017	—	—	5,887	10,478
2018	—	—	—	5,296
Total				$ 44,853
Auto - net reserves for loss and loss adjustment expenses, end of year				$ 8,411

Other Casualty

Loss and loss adjustment expenses incurred, net					
Accident year	**2015**	**2016**	**2017**	**2018**	**IBNR loss and LAE reserves, net**
	<---------- Unaudited ---------->				
2015	$ 230	$ 335	$ 310	$ 335	$ 157
2016	—	1,391	1,465	1,562	787
2017	—	—	1,952	2,062	1,602
2018	—	—	—	10,284	9,819
Total				$ 14,243	$ 12,365

Cumulative net losses and loss adjustment expenses paid				
Accident year	**2015**	**2016**	**2017**	**2018**
	<---------- Unaudited ---------->			
2015	$ —	$ —	$ —	$ 48
2016	—	—	—	183
2017	—	—	—	54
2018	—	—	—	80
Total				$ 365
Other Casualty - net reserves for loss and loss adjustment expenses, end of year				$ 13,878

Credit & Financial Lines

Loss and loss adjustment expenses incurred, net					
Accident year	**2015**	**2016**	**2017**	**2018**	**IBNR loss and LAE reserves, net**
	<---------- Unaudited ---------->				
2015	$ 126	$ 100	$ 106	$ 119	$ 4
2016	—	308	357	403	15
2017	—	—	262	256	9
2018	—	—	—	136	5
Total				$ 914	$ 33

Cumulative net losses and loss adjustment expenses paid				
Accident year	**2015**	**2016**	**2017**	**2018**
	<---------- Unaudited ---------->			
2015	$ 9	$ 91	$ 90	$ 115
2016	—	214	306	388
2017	—	—	224	247
2018	—	—	—	131
Total				$ 881
Credit & Financial Lines - net reserves for loss and loss adjustment expenses, end of year				$ 33

Multi-line

Loss and loss adjustment expenses incurred, net					
Accident year	**2015**	**2016**	**2017**	**2018**	**IBNR loss and LAE reserves, net**
	<---------- Unaudited ---------->				
2015	$ —	$ —	$ —	$ —	$ —
2016	—	—	—	—	—
2017	—	—	—	—	—
2018	—	—	—	8,825	7,568
Total				$ 8,825	$ 7,568

Cumulative net losses and loss adjustment expenses paid				
Accident year	**2015**	**2016**	**2017**	**2018**
	<---------- Unaudited ---------->			
2015	$ —	$ —	$ —	$ —
2016	—	—	—	—
2017	—	—	—	—
2018	—	—	—	766
Total				$ 766
Multi-line - net reserves for loss and loss adjustment expenses, end of year				$ 8,059

Other Specialty

Accident year	Loss and loss adjustment expenses incurred, net 2015	2016	2017	2018	IBNR loss and LAE reserves, net
	<---------- Unaudited ---------->				
2015	$ —	$ —	$ —	$ —	$ —
2016	—	—	—	—	—
2017	—	—	179	179	114
2018	—	—	—	656	417
Total				$ 835	$ 531

Accident year	Cumulative net losses and loss adjustment expenses paid 2015	2016	2017	2018
	<---------- Unaudited ---------->			
2015	$ —	$ —	$ —	$ —
2016	—	—	—	—
2017	—	—	1	65
2018	—	—	—	239
Total				$ 304
Other Specialty - net reserves for loss and loss adjustment expenses, end of year				$ 531

Reconciliation of loss development information to loss and loss adjustment expense reserves

The following table provides a reconciliation of the Company's loss and loss expense reserves as of December 31, 2018:

	2018
Property and Casualty Reinsurance	
Property	2,477
Workers' Compensation	12,194
Auto	8,411
Other Casualty	13,878
Credit & Financial Lines	33
Multi-line	8,059
Other Specialty	531
Net reserves for loss and loss adjustment expenses, end of year	45,583
Loss and loss adjustment expenses recoverable	136,749
Gross reserves for loss and loss adjustment expenses, end of year	182,332

Cumulative claims frequency

The Company determined that the disclosure of claim frequency analysis was impracticable. As a result, no claims frequency information has been disclosed. The Company's business is primarily comprised of reinsurance contracts written on a quota share or aggregate loss basis and the underlying claim count information is not provided for most contracts. Furthermore, even if claim counts were made available by the Company's cedents, the quota share cession percentage varies for each contract, resulting in the cedent claim counts not being a meaningful measure of the Company's loss exposure.

Claims duration

The following table is presented as supplementary information and presents the Company's historical average annual percentage payout of loss and loss adjustment expenses incurred, net by age, as of December 31, 2018:

	Year 1	Year 2	Year 3	Year 4
		(Unaudited)		
Prospective reinsurance contracts				
Property	49.4%	40.1%	9.2%	2.3%
Workers' Compensation	6.1%	26.1%	13.0%	16.8%
Auto	41.2%	50.0%	5.6%	3.3%
Other Casualty	0.2%	0.9%	5.9%	14.3%
Credit & Financial Lines	61.1%	33.7%	9.8%	20.5%
Multi-line	8.7%	n/a	n/a	n/a
Other Specialty	18.5%	35.9%	n/a	n/a

The Company was incorporated on November 21, 2014, commenced underwriting operations in February 2015 and predominantly writes a mix of personal and commercial lines. As a result, the Company has limited historical data and is unable to present a full cycle of claim payments.

10. Management and performance fees

Prior to the change in the Company's investment account structure described in Note 4, the Company and TPRUSA were parties to the JV Agreement with Third Point LLC and TP GP under which Third Point LLC managed certain jointly held assets. Effective August 31, 2018, the Company, Third Point Re and Third Point Re BDA entered into the 2018 LPA with TP GP, pursuant to which the Company invested in the TP Fund.

Management fees

Pursuant to both the JV Agreement and the 2018 LPA, Third Point LLC is entitled to receive monthly management fees. Prior to the change in the Company's investment account structure, management fees were calculated based on 1.5%, (2.0% up to December 22, 2016), of net investments managed by Third Point LLC. As a result of the 2018 LPA effective August 31, 2018, management fees are charged at the TP Fund level and are calculated based on 1.5% of the investment in TP Fund and multiplied by an exposure multiplier computed by dividing the average daily investment exposure leverage of the TP Fund by the average daily investment exposure leverage of the Third Point Offshore Master Fund L.P. ("Offshore Master Fund"). Third Point LLC also serves as the investment manager for the Offshore Master Fund.

Performance fees

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

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

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

The performance fee is subject to a loss carryforward provision pursuant to which TP GP is required to maintain a loss recovery account, which represents the sum of all prior period net loss amounts, not offset by prior year net profit amounts, and that is allocated to future profit amounts until the loss recovery account has returned to a positive balance. Until such time, no performance fees are payable. As of December 31, 2018, the Loss Recovery Account for the Company's investment in TP Fund was $3.8 million (December 31, 2017 - $nil). These amounts have not been recorded in the Company's consolidated balance sheets.

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

The total management and performance fees to related parties, including our share of fees paid in connection with our investment in TP Fund, for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
Management fees - Third Point LLC	$ 3,148	$ 4,654
Performance fees - Third Point Advisors LLC (1)	996	11,885
Management and performance fees to related parties as reported in the Company's consolidated statement of income (loss)	4,144	16,539
Management and performance fees included in net investment loss from investment in related party investment fund (1)	403	—
Total management and performance fees to related parties	$ 4,547	$ 16,539

(1) On the date when the Company's investments were transferred to TP Fund, $0.9 million of performance fees payable to TP GP were also transferred to TP Fund. As a result of the investment loss in the subsequent period, a reduction of $0.9 million in performance fee is included in management and performance fees included in net investment loss from investment in related party investment fund.

As of December 31, 2017, $11.9 million related to performance fees earned by TP GP were included in noncontrolling interests in related party. See Note 15 for additional information.

11. Letter of credit facilities

As of December 31, 2018, the Company had entered into the following letter of credit facilities:

	Letters of Credit		Collateral
	Committed Capacity	Issued	Cash and Cash Equivalents
Unsecured syndicated credit facility (1)	$ 200,000	$ 79,670	n/a
Committed - Secured letter of credit facility	50,000	32,653	32,653
Uncommitted - Secured letter of credit facility (2)	n/a	94,906	94,906
	$ 250,000	$ 207,229	$ 127,559

(1) 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. The Credit Agreement is fully and unconditionally guaranteed by Third Point Reinsurance Ltd. As of December 31, 2018, Third Point Re BDA and Third Point Re USA issued $65.6 million and $79.7 million, respectively, of letters of credit in support of their reinsurance obligations. The remaining amount available for issuance under the unsecured syndicated credit facility as of December 31, 2018 was $54.7m.

(2) On December 28, 2018, the Company amended its facilities with Citibank under which, the previous committed letter of credit facility agreements for $100.0 million were amended to uncommitted facilities.

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

12. Net investment income (loss)

Net investment income (loss) for the years ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
Net investment income (loss) by type		
Net realized gains on investments and investment derivatives	$ 54,627	$ 30,144
Net change in unrealized gains (losses) on investments and investment derivatives	(49,703)	30,855
Net gains on foreign currencies	163	85
Dividend and interest income	8,074	8,891
Dividends paid on securities sold, not yet purchased	(640)	(726)
Other expenses	(2,780)	(4,260)
Management and performance fees to related parties	(4,144)	(16,539)
Net investment loss from investment in related party investment fund (1)	(35,167)	—
Net investment income (loss)	$ (29,570)	$ 48,450

(1) Effective August 31, 2018, Third Point Re, Third Point Re BDA and Third Point Re USA entered into the 2018 LPA to invest in TP Fund. As a result, the management and performance fees are presented within net investment income from investment in related party investment fund from the effective date of the transition. See Notes 4 and 10 for additional information regarding the 2018 LPA and related management and performance fees.

13. Income taxes

The Company provides for income tax expense or benefit based upon pre-tax income or loss reported in the consolidated statements of income (loss) and the provisions of currently enacted tax laws.

The Company is incorporated under the laws of Bermuda and is subject to Bermuda law with respect to taxation. Under current Bermuda law, the Company is not subject to any income or capital gains taxes in Bermuda. In the event that such taxes are imposed, the Company 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 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.

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.

As a result of the change in the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018, the Company had recorded a decrease related to deferred tax assets and deferred tax liabilities of $2.6 million and $6.8 million, respectively, with a corresponding net adjustment decreasing deferred income tax expense by $4.2 million for the year ended December 31, 2017. Although the Company believes that it has accounted for the most significant tax effects of the Tax Act, there may be further changes that could impact the Company's calculations of certain deferred tax amounts. For example, the Company has not fully incorporated the revisions to the discounting rules for loss reserves into its calculation of this deferred tax asset. The Company does not anticipate material changes to its effective tax rate as a result of the other changes included in the Tax Act.

Prior to the change in the Company's investment account structure described in Note 4, the Company was subject to withholding taxes on income sourced in the United States and in other countries, subject to each countries' specific tax

regulations. Income subject to withholding taxes includes, but is not limited to, dividends, capital gains and interest on certain investments.

For the years ended December 31, 2018 and 2017, the Company recorded income tax (expense) benefit, as follows:

	2018	2017
Income tax expense (benefit)	$ (10,469)	$ 8,958
Withholding taxes on certain investment transactions	382	10
Income tax expense (benefit)	$ (10,087)	$ 8,968

The following table presents the Company's current and deferred incomes taxes for the year ended December 31, 2018 and 2017:

	2018	2017
Current tax expense	$ 383	$ 312
Deferred tax expense (benefit)	(10,470)	8,656
Income tax expense (benefit)	$ (10,087)	$ 8,968

The following table presents the tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities as of December 31, 2018 and 2017:

	2018	2017
Deferred tax assets:		
Discounting of loss and loss adjustment expense reserves	$ 534	$ 330
Unearned premiums	1,567	1,634
Temporary differences in recognition of expenses	319	138
Net operating loss carryforward	2,549	1,545
Total deferred tax assets	4,969	3,647
Deferred tax liabilities:		
Deferred acquisition costs	1,490	7,798
Unrealized gains (losses) on investments	(405)	2,435
Total deferred tax liabilities	1,085	10,233
Net deferred tax asset (liability)	$ 3,884	$ (6,586)

The deferred tax assets and liabilities as of December 31, 2018 were primarily related to U.S. income tax. To evaluate the recoverability of the deferred tax assets, the Company considers the timing of the reversal of deferred income and expense items as well as the likelihood that the Company will generate sufficient taxable income to realize future tax benefits. The Company believes that it is more likely than not that it will generate sufficient taxable income and realize the future tax benefits in order to recover the deferred tax assets and, accordingly, no valuation allowance was recorded as of December 31, 2018 and 2017. As of December 31, 2018, deferred tax assets include $12.5 million of net operating losses that can be carried forward for twenty years and part of which will begin to expire in 2035.

14. Share-based compensation

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

As of December 31, 2018, 9,017,930 (December 31, 2017 - 9,330,000) of Third Point Re's common shares were available for future issuance under the equity incentive compensation plans.

The following table provides the total share-based compensation expense included in general and administrative expenses during the years ended December 31, 2018 and 2017:

	2018	2017
Restricted shares with service condition (1)	$ —	$ (667)
Restricted shares with service and performance condition	907	308
	$ 907	$ (359)

(1) Net of forfeitures of $nil in the year ended December 31, 2018 (December 31, 2017 - $0.9 million)

As of December 31, 2018, the Company had $1.6 million (December 31, 2017 - $1.1 million) of unamortized share compensation expense, which is expected to be amortized over a weighted average period of 1.4 years (December 31, 2017 - 1.6 years).

Management and director options

The management options issued under the Share Incentive Plan were subject to a service and performance condition. The service condition will be met with respect to 20% of the management options on each of the first five anniversary dates following the grant date of the management options. The performance condition with respect to the management options was met as a result of the IPO. Prior to the IPO, 8,572,594 of the management options were considered exercisable subject to the service condition. After the IPO, the remaining 2,357,633 management options had met the performance condition.

As Third Point Re's closing share price on December 31, 2018 was below $10.00, there was no aggregate intrinsic value of options outstanding and options exercisable. As of December 31, 2017, the aggregate intrinsic value of options outstanding and options exercisable was $nil and $nil, respectively. For the year ended December 31, 2018, the Company received proceeds of $nil (2017 - $1.5 million) from the exercise of options.

Restricted shares with service condition

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

For the year ended December 31, 2018 and 2017, no restricted shares with service condition were issued.

Restricted shares with service and performance condition

Beginning in December 2014, Third Point Re granted on an annual basis performance-based restricted shares to certain employees pursuant to the Omnibus Plan. Performance-based restricted shares vest based on continued service and the achievement of certain financial performance measures over a three-year measurement period. The number of performance-based restricted shares that will be retained upon vesting will vary based on the level of achievement of the performance goals. The formula for determining the amount of shares that will vest is based on underwriting performance of the property and casualty reinsurance segment including underwriting income and the amount of float generated, as defined in the relevant award agreements.

Defined contribution retirement plans

The Company's employees are eligible for retirement benefits through defined contribution retirement plans. The Company and employees contribute an amount equal to a specified percentage of each employee's salary. Expenses related to the defined contribution plans were $0.2 million for each of the years ended December 31, 2018 and 2017.

15. Noncontrolling interest in related party

Noncontrolling interest in related party represents the portion of equity in consolidated subsidiaries not attributable, directly or indirectly, to the Company. Prior to the change in the Company's investment account structure described in Note 4, the joint venture created through the JV Agreement (Note 4) had been considered a variable interest entity and had been consolidated in accordance with ASC 810, *Consolidation* (ASC 810). Since the Company was deemed to be the primary beneficiary, the Company had consolidated the joint venture and recorded TP GP's minority interests as noncontrolling interests in related party in the consolidated balance sheets.

The following table is a reconciliation of the beginning and ending carrying amount of total noncontrolling interest in related party resulting from the consolidation of the Company's joint venture for the years ended December 31, 2018 and 2017:

	2018	2017
Balance, beginning of period	$ 16,007	$ 5,316
Net income attributable to total noncontrolling interests in related party	82	806
Contributions [(1)]	80	11,885
Redemptions [(2)]	(16,169)	(2,000)
Balance, end of period	$ —	$ 16,007

(1) Contributions include performance fees earned during the period. See Note 10 for additional information.

(2) Redemptions include TP GP's redemption in conjunction with the change in the investment account structure. See Note 4 for additional information.

Non-consolidated variable interest entities

Third Point Enhanced LP

TP Fund meets the definition of a variable interest entity principally because of the existence of disproportionate rights in the partnership compared to the obligations to absorb the expected losses and right to receive the expected residual returns of TP Fund's results. As of December 31, 2018, the Company and TP GP hold interests of approximately 6.4% and 12.5%, respectively, of the net asset value of TP Fund. As a result, both entities hold significant financial interests in TP Fund. However, TP GP controls all of the investment decision making authority and the Company does not have the power to direct the activities which most significantly impact the economic performance of TP Fund. As a result, the Company is not considered the primary beneficiary and does not consolidate TP Fund.

Realized gains or losses upon any redemptions of investments are calculated using the weighted average method and the Company records contributions and withdrawals related to its investment in the TP Fund on the transaction date. As of December 31, 2018, the Company had no unfunded commitments related to TP Fund and the Company's maximum exposure to loss corresponds to the value of its investments in TP Fund.

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

Non-consolidated variable interest entities under previous investment account structure

Prior to the change in the Company's investment account structure, the Company invested directly in several limited partnerships and other investment vehicles. Some of these entities were affiliated with TP Fund's investment manager, Third Point LLC. The activities of these variable interest entities were generally limited to holding investments and the Company's involvement in these entities was passive in nature. The Company did not have the power to direct the activities which most significantly impacted the variable interest entities economic performance and therefore, the Company was not the primary beneficiary of these variable interest entities. The Company elected the practical expedient for estimating fair value for these investments and reported the investments based on the reported NAV with changes in fair value recognized within the consolidated statements of income (loss). The following summarizes all of the

Company's investment in variable interest entities that were not consolidated prior to the change in the investment account structure:

TP Lux Holdco LP

Prior to the change in the Company's investment account structure, the Company was a limited partner in TP Lux Holdco LP (the "Cayman HoldCo"), which was 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 held 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 was also an affiliate of the Investment Manager. LuxCo's principal objective was to act as a collective investment vehicle to purchase certain European debt and equity investments. The Company invested in the Cayman HoldCo alongside other investment funds managed by the Investment Manager.

During the period from January 1, 2018 to September 4, 2018, the date when the Company's investment in TP Lux Holdco was transferred to TP Fund, the Company received net distributions of $0.1 million (2017 - $5.4 million) from the Cayman HoldCo.

As a result of the change in the investment account structure, the Company's investment of $0.1 million in the limited partnership was transferred to the TP Fund. The estimated fair value of the investment in the limited partnership as of December 31, 2017 was $0.1 million, representing a 2.3% interest.

TP DR Holdings LLC

Prior to the change in the Company's investment account structure, the Company held an equity and debt investment in TP DR Holdings LLC ("TP DR"), which was 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 was to own, develop and manage properties in the Dominican Republic. The Company invested in TP DR alongside other investment funds managed by the Investment Manager and third-party investors.

During the period from January 1, 2018 to September 4, 2018, the date when the Company's investment in TP DR was transferred to TP Fund, the Company contributed cash of $0.4 million (2017 - $0.3 million) to TP DR.

As a result of the change in the investment account structure, the Company's investment of $2.1 million in TP DR was transferred to the TP Fund. As of December 31, 2017, the estimated fair value of the investment was $1.6 million, corresponding to $0.5 million of equity, representing a 0.9% interest, and $1.1 million of debt, representing a 1.7% interest.

Cloudbreak II Cayman Ltd and TP Trading II LLC

Prior to the change in the Company's investment account structure, the Company directly held 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 invested in the Cloudbreak entities and TP Trading II LLC alongside other investment funds managed by the Investment Manager. These entities' were invested in a structure whose primary purpose was to purchase consumer loans and warrants from a marketplace lending platform.

As a result of the change in the investment account structure, $0.5 million of the Company's asset-backed security investments were transferred to the TP Fund. As of December 31, 2017, the Cloudbreak entities held $0.6 million of the Company's asset-backed security investments, which were included in investments in securities in the consolidated balance sheet. The Company's pro rata interest in the underlying investments was registered in the name of Cloudbreak II US LLC and the related income and expense were reflected in the consolidated balance sheets and the consolidated statements of income (loss).

As a result of the change in the investment account structure, the Company's equity investment of $0.5 million in TP Trading II LLC was transferred to the TP Fund. As of December 31, 2017, the estimated fair value of the investment was $0.8 million, representing a 1.2% interest.

Ventures Entities

Prior to the change in the Company's investment account structure, the Company held 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 were affiliates of the Investment Manager. The Company invested in the Ventures entities alongside other investment funds managed by the Investment Manager. The primary purpose of these entities was to make investments in direct commercial real estate, real estate debt and a publicly traded telecommunications company.

As a result of the change in the investment account structure, $8.4 million of the Company's real estate and other debt investments were transferred to the TP Fund. As of December 31, 2017, the Ventures entities held $7.5 million of the Company's investments, which were included in investments in securities in the consolidated balance sheets. The Company recorded changes in the fair value of this investment in the consolidated statements of income (loss).

Cloudbreak Aggregator LP

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

As a result of the change in the investment account structure, the Company's equity investment of $0.6 million in the Cloudbreak Aggregator LP was transferred to the TP Fund. As of December 31, 2017 the Company did not hold an equity interest in the Cloudbreak Aggregator LP.

16. Related party transactions

In addition to the transactions disclosed in Notes 4, 10 and 15 to these 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.

Prior to the change in the Company's investment account structure described in Note 4, Third Point Loan L.L.C. ("Loan LLC") and Third Point Ventures LLC ("Ventures LLC" and, together with Loan LLC, "Nominees") served as nominees of the Company and other affiliated investment management clients of the Investment Manager for certain investments. The Nominees appointed the Investment Manager as its true and lawful agent and attorney. As of December 31, 2017, Loan LLC held $12.0 million and Ventures LLC held $0.8 million of the Company's investments, which were included in investments in securities and derivative contracts in the consolidated balance sheets. The Company's pro rata interest in the underlying investments registered in the name of the Nominees and the related income and expense were reflected in the consolidated balance sheets and the consolidated statements of income (loss). The valuation policy, with respect to investments held by the nominees, is further discussed in Note 4.

Third Point Re BDA

In February 2015, the Company entered into a quota share reinsurance contract with Third Point Re BDA, a company related by common control. Under the quota share reinsurance contract, the Company cedes 75% of its assumed business to Third Point Re BDA. The consolidated balance sheets and statements of loss include the following amounts related to the reinsurance contract with Third Point Re BDA for the years ended December 31, 2018 and 2017:

	2018	2017
Balance sheets		
Unearned premium ceded	$ 111,923	$ 116,723
Deferred acquisition costs, net	27,837	42,951
Loss and loss adjustment expenses ceded	136,749	83,912
Reinsurance balances payable	104,569	73,645
Statements of income		
Gross premiums ceded	152,662	130,267
Earned premiums ceded	157,462	120,078
Loss and loss adjustment expenses	116,553	83,545
Acquisition costs, net	$ 51,722	$ 44,314

As of December 31, 2018, Third Point Re BDA issued $49.6 million (December 31, 2017 - $49.7 million) of letters of credit to the benefit of clients of the Company. The cash collateral securing these letters of credit is included in restricted cash in Third Point Re BDA's balance sheet.

Services Agreements

Third Point Re BDA

The Company and Third Point Re have entered into a services agreement with Third Point Re BDA, pursuant to which Third Point Re BDA and Third Point Re provide certain finance, actuarial, legal and administrative support services to Third Point Re USA and Third Point Re USA provides certain IT and actuarial services to Third Point Re BDA and Third Point Re. For the year ended December 31, 2018, the Company recognized $2.0 million (2017 - $4.6 million) of service fee expense, which is included in the Company's general and administrative expenses.

Third Point Re Marketing (UK)

TPRUK entered into an agreement with the Company whereby TPRUK recharges the Company for the provision of marketing services performed in the United Kingdom on behalf of the Company. For the year ended December 31, 2018, the Company recognized fees of $0.1 million (2017 - $nil), which are included in the Company's general and administrative expenses.

Net Worth Maintenance Agreement

Third Point Re USA also has entered into a Net Worth Maintenance Agreement with Third Point Re, pursuant to which Third Point Re has agreed to commit funds sufficient to maintain a minimum level of capital at Third Point Re USA of $250.0 million (the "Net Worth Maintenance Agreement").

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

Off-balance sheet risk

Subsequent to the change in the Company's investment account structure described in Note 4, the Company does not own directly the net investment assets and related liabilities but instead, owns limited partnership interests in TP Fund. There are no off-balance sheet risks associated with the Company's investment in TP Fund. The Company's maximum

exposure to loss associated with its investment in the TP Fund corresponds to the carrying value of its investments in TP Fund.

Prior to the change in the Company's investment account structure described in Note 4, the Company traded various financial instruments and engaged in various investment activities with off-balance sheet risk. These financial instruments included securities sold, not yet purchased, forwards, futures, options, swaptions, swaps and contracts for differences. These financial instruments are now part of the underlying investment activities of TP Fund. 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 contain 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 could have exceeded the amounts recognized in the consolidated balance sheets.

Prior to the change in the Company's investment account structure, the Company traded and held certain derivative contracts, such as written options, which constitute guarantees. These type of investments are now part of the underlying investment securities held by TP Fund.

Swaption contracts gave 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 was 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 were 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 exposed the Company to market risks equivalent to actually holding securities of the notional value but typically involved little capital commitment relative to the exposure achieved. The gains or losses of the Company may therefore have been magnified on the capital commitment. These type of investments are now part of the investment strategies of the TP Fund.

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. Prior to the change in the investment account structure described in Note 4, the Company directly held these type of securities. Those securities are no longer held by the Company but instead, are included in the TP Fund's investment strategies.

Prior to the change in the Company's investment account structure, the Company entered 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 would receive a pro-rata portion of the total notional amount of the credit default index or basket contract from the seller. When the Company purchased single-name, index and basket credit default swaps, the Company was exposed to counterparty nonperformance.

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

Credit Spreads on underlying (basis points)	Maximum Payout/ Notional Amount (by period of expiration)			Fair Value of Written Credit Derivatives [2]		
	0-5 years	5 years or Greater Expiring Through 2046	Total Written Credit Default Swaps [1]	Asset	Liability	Net Asset/ (Liability)
Single name (0 - 250)	$ —	$ 279	$ 279	$ —	$ 248	$ (248)

(1) As of 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

Subsequent to the change in the Company's investment account structure described in Note 4, the Company does not own directly the net investment assets but instead, owns limited partnership interests in TP Fund. As a result, the Company is no longer exposed directly to credit risk associated with its net investment assets it used to hold. The Company's maximum exposure to loss associated with its investment in the TP Fund corresponds to the carrying value of its investments in TP Fund. The Company does not have any unfunded capital commitments associated with its investment in TP Fund.

Prior to the change in the Company's investment account structure, the Company was subject to concentrations of credit risk with certain counterparties. Substantially all securities transactions and individual counterparty concentrations were with major securities firms, such as prime brokers or their affiliates. The Company reduced its credit risk with counterparties by entering into master netting agreements. Furthermore, the Company obtained collateral from counterparties to reduce its exposure to counterparty credit risk.

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.

18. Commitments and Contingencies

Operating lease

The Company leases office space in New Jersey, U.S.A. The lease has been accounted for as an operating lease. Total rent expense for the year ended December 31, 2018 was $0.2 million (2017 - $0.2 million).

Future minimum rental commitments as of December 31, 2018 under this lease are expected to be as follows:

2019	$	286
2020		232
2021		236
2022		40
2023		—
Thereafter		—
	$	794

Agreements

Third Point LLC

In June 2016, the Company and TPRUSA entered into the JV Agreement with Third Point LLC and TP GP for an additional five year term, effective on December 22, 2016. These agreements have similar terms to the expired agreements, however, the management fee was reduced from 2% to 1.5%.

As a result of the change in investment structure described in Note 4, pursuant to the 2018 LPA effective August 31, 2018, management fees are charged at the TP Fund level and are calculated based on 1.5% of the investment in TP Fund and multiplied by an exposure multiplier computed by dividing the average daily investment exposure leverage of the TP Fund by the average daily investment exposure leverage of the Offshore Master Fund. The JV Agreement will be terminated on the date that all net investment assets have been transferred to TP Fund pursuant to the Subscription Agreement.

Investments

Under the new investment account structure described in Note 4, the Company does not have any unfunded commitments or obligations.

Prior to the change in the Company's investment account structure, the Company purchased loan and other participation interests, such as bank debt, which may have included revolving credit arrangements or other financing commitments obligating the Company to advance additional amounts on demand.

Letters of Credit

See Note 11 for additional information related to the Company's letter of credit facilities.

Litigation

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

19. Statutory requirements

Under the Bermuda Insurance Act 1978, as amended, and related regulations, Third Point Re USA is subject to capital requirements calculated using the Bermuda Solvency and Capital Requirement ("BSCR") model, which is a standardized statutory risk-based capital model used to measure the risk associated with Third Point Re USA's assets, liabilities and premiums. Third Point Re USA's required statutory capital and surplus under the BSCR model is referred to as the enhanced capital requirement ("ECR"). Third Point Re USA is required to calculate and submit the ECR to the Bermuda Monetary Authority ("BMA"), annually. Following receipt of the submission of Third Point Re USA's ECR the BMA

has the authority to impose additional capital requirements (capital add-ons) if it deems necessary. If a company fails to maintain or meet its ECR, the BMA may take various degrees of regulatory action. In 2016, the BMA implemented the economic balance sheet ("EBS") framework, which is now used as the basis to determine the Company's ECR. Under the new framework, assets and liabilities are mainly assessed and included on the EBS at fair value, with the insurer's U.S. GAAP balance sheet serving as a starting point. The model also requires insurers to estimate insurance technical provisions, which consist of the insurer's insurance related balances valued based on best-estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate, with the addition of a risk margin to reflect the uncertainty in the underlying cash flows. As of December 31, 2018 and 2017, Third Point Re USA met the ECR.

As of December 31, 2018 and 2017, the principal difference between statutory capital and surplus and shareholder's equity presented in accordance with GAAP is that prepaid expenses is a non-admitted asset for statutory purposes.

Third Point Re USA is also required under its Class 4 license to maintain minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of their relevant liabilities for general business. As of December 31, 2018 and 2017, Third Point Re USA met their minimum liquidity ratio requirement.

The following is a summary of actual and required statutory capital and surplus, based on the EBS framework, of the Company as of December 31, 2018 and 2017:

	2018	2017
Actual statutory capital and surplus	$ 255,872	$ 268,568
Required statutory capital and surplus	$ 100,000	$ 93,726

The Company had statutory net income (loss) of $(29.5) million and $25.7 million for the years ended December 31, 2018 and 2017, respectively.

Dividend restrictions

Third Point Re USA may declare dividends subject to it continuing to meet its solvency and capital requirements, which includes continuing to hold statutory capital and surplus equal to or exceeding its ECR. Third Point Re USA is prohibited from declaring or paying in any fiscal year dividends of more than 25% of its prior year's statutory capital and surplus, unless Third Point Re USA files with the BMA a signed affidavit by at least two members of the Board of Directors attesting that a dividend would not cause Third Point Re USA to fail to meet its capital requirements.

Third Point Re USA is also restricted by the amount of shareholder's equity that is available for the payment of dividends and must maintain a minimum shareholder's equity of $250.0 million as per the Net Worth Maintenance Agreement. As of December 31, 2018, Third Point Re USA could pay dividends in 2019 of approximately $1.4 million (December 31, 2017 - $27.6 million). In May 2018 and November 2018, Third Point Re USA declared and paid dividends of $3.7 million and $4.0 million, respectively, to TPRUSA.

20. Subsequent events

The Company has evaluated subsequent events through March 27, 2019 , the date of issuance of the audited consolidated financial statements.

Second Amended and Restated Limited Partnership Agreement

On February 28, 2019, Third Point Re, Third Point Re BDA and Third Point Re USA entered into an Amended and Restated Limited Partnership Agreement (the "Amended LPA") with TP GP, which amended and restated the 2018 LPA. The Amended LPA revised the management fee from 1.5% per annum to 1.25% per annum with effect from January 1, 2019. In addition, pursuant to the Amended LPA, TP GP shall notify the Company if Third Point LLC or its affiliates (either alone or together with a third party) form certain investment vehicles that pursue an investment strategy primarily comprised of debt or other credit-related investments (the "Permitted Funds"). The Amended LPA provides the Company with the right to withdraw up to $250.0 million in 2019 and a separate $250.0 million during the period from January 1, 2020 through December 31, 2021 for the purpose of immediately investing such amounts in Permitted Funds. Furthermore, the Amended LPA adjusted the loss carryforward terms of the LPA, which relate to the calculation of TP GP's performance compensation under the LPA, to preserve the loss carryforward attributable to

the Company's investment in TP Fund when contributions to TP Fund are made within nine months of certain types of withdrawals from TP Fund. The term of the Amended LPA ends December 31, 2021, which is consistent with the term under the 2018 LPA. All other material terms of the Amended LPA remain consistent with the LPA.