THIRD POINT REINSURANCE (USA) LTD.

Audited Consolidated Financial Statements

Years ended December 31, 2019 and 2018

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

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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, 2019 and 2018, and the related consolidated statements of income (loss), 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, 2019 and 2018, 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 2018 and prior which are on pages 24 through 27, and the historical average annual percentage payout of loss and loss adjustment expenses incurred, net by age which is on page 28 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
April 8, 2020

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

	December 31, 2019	December 31, 2018
Assets		
Investment in related party investment fund, at fair value (cost - $45,965; 2018 - $128,965)	$ 23,158	$ 93,798
Debt securities, trading, at fair value (cost - $7,324; 2018 - $9,472)	7,327	9,243
Total investments	30,485	103,041
Cash and cash equivalents	52,161	40,859
Restricted cash and cash equivalents	269,064	145,708
Due from brokers	—	178
Interest and dividends receivable	240	346
Reinsurance balances receivable	205,433	142,754
Unearned premiums ceded	127,562	111,923
Deferred acquisition costs, net	6,565	7,097
Loss and loss adjustment expenses recoverable	223,864	136,749
Due from affiliates	3,334	403
Other assets	2,300	4,088
Total assets	$ 921,008	$ 693,146
Liabilities		
Accounts payable and accrued expenses	$ 2,731	$ 1,498
Reinsurance balances payable	172,284	108,314
Deposit liabilities	6,107	—
Unearned premium reserves	169,805	149,231
Loss and loss adjustment expense reserves	298,457	182,332
Participation agreement with related party investment fund	—	421
Total liabilities	649,384	441,796
Commitments and contingent liabilities		
Shareholder's equity		
Common shares (par value $1.00; authorized, 1,000,000; issued and outstanding, 1,000,000 (2018: 1,000,000))	1,000	1,000
Additional paid-in capital	299,337	283,979
Retained deficit	(28,713)	(33,629)
Shareholder's equity attributable to common shareholder	271,624	251,350
Total liabilities and shareholder's equity	$ 921,008	$ 693,146

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

Albert Zhou

Director

Director

THIRD POINT REINSURANCE (USA) LTD.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the years ended December 31, 2019 and 2018
(expressed in thousands of U.S. dollars)

	2019	2018
Revenues		
Gross premiums written	$ 300,270	$ 203,548
Gross premiums ceded	(225,823)	(152,662)
Net premiums written	74,447	50,886
Change in net unearned premium reserves	(4,935)	1,600
Net premiums earned	69,512	52,486
Net investment income (loss) from investment in related party investment fund	12,360	(35,167)
Net investment income before management and performance fees to related parties	4,537	9,741
Management and performance fees to related parties	—	(4,144)
Net investment income (loss)	16,897	(29,570)
Total revenues	86,409	22,916
Expenses		
Loss and loss adjustment expenses incurred, net	49,377	38,851
Acquisition costs, net	13,469	13,567
General and administrative expenses	12,117	9,993
Foreign exchange losses	33	2
Total expenses	74,996	62,413
Income (loss) before income tax (expense) benefit	11,413	(39,497)
Income tax (expense) benefit	(2,397)	10,087
Net income (loss)	9,016	(29,410)
Net (income) loss attributable to noncontrolling interest in related party	—	(82)
Net income (loss) available to common shareholder	$ 9,016	$ (29,492)

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

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

THIRD POINT REINSURANCE (USA) LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
For the years ended December 31, 2019 and 2018
(expressed in thousands of U.S. dollars, except share amounts)

	2019	2018
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	283,979	273,072
Contributions of capital from parent	15,000	10,000
Share compensation expense	358	907
Balance, end of year	299,337	283,979
Retained earnings (deficit)		
Balance, beginning of year	(33,629)	3,563
Net income (loss)	9,016	(29,410)
Net income attributable to noncontrolling interest in related party	—	(82)
Dividends	(4,100)	(7,700)
Balance, end of year	(28,713)	(33,629)
Shareholder's equity attributable to common shareholder	$ 271,624	$ 251,350

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, 2019 and 2018
(expressed in thousands of U.S. dollars)

	2019	2018
Operating activities		
Net income (loss)	$ 9,016	$ (29,410)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Share compensation expense	358	907
Net realized and unrealized gain on investments and derivatives	(364)	(4,924)
Net realized and unrealized (gain) loss on investment in related party investment fund	(12,360)	35,167
Net foreign exchange loss	33	2
Amortization of premium and accretion of discount, net	(6)	(362)
Changes in assets and liabilities:		
Reinsurance balances receivable	(62,701)	(31,467)
Deferred acquisition costs, net	532	4,496
Unearned premiums ceded	(15,639)	5,032
Loss and loss adjustment expenses recoverable	(87,115)	(52,837)
Due from affiliates, net	(2,931)	(1,366)
Other assets	1,796	(3,957)
Interest and dividends receivable, net	106	(646)
Unearned premium reserves	20,574	(6,632)
Loss and loss adjustment expense reserves	116,107	70,470
Accounts payable and accrued expenses	1,233	(9,880)
Reinsurance balances payable	63,970	32,923
Net cash provided by operating activities	32,609	7,516
Investing activities		
Proceeds from redemptions from related party investment fund	130,000	111,665
Contributions to related party investment fund	(47,000)	(24,933)
Change in participation agreement with related party investment fund	(421)	(3,871)
Purchases of investments	(39,692)	(410,530)
Proceeds from sales and maturities of investments	41,977	398,785
Purchases of investments to cover short sales	—	(105,873)
Proceeds from short sales of investments	—	99,173
Change in due from/to brokers, net	178	16,444
Decrease in securities sold under an agreement to repurchase	—	(13,132)
Net cash provided by investing activities	85,042	67,728
Financing activities		
Contributions of capital from parent	15,000	10,000
Change in noncontrolling interest in related party, net	—	(12,003)
Dividends paid to parent	(4,100)	(7,700)
Net proceeds from deposit liability contracts	6,107	—
Net cash provided by (used in) financing activities	17,007	(9,703)
Net increase in cash, cash equivalents and restricted cash	134,658	65,541
Cash, cash equivalents and restricted cash at beginning of year	186,567	121,026
Cash, cash equivalents and restricted cash at end of year	$ 321,225	$ 186,567
Supplementary information		
Interest paid in cash	$ 1	$ 2,831
Income taxes paid in cash	$ —	$ 440
Non-cash transfer of net investment assets to the related party investment fund	$ —	$ 215,697

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

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 significant 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. Reinstatement premiums are earned when written. 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, 2019, 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.

Deposit liabilities

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

Fair value measurement

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

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

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

Prior to the change in the investment account structure, derivative instruments within our investment assets managed by our investment manager, Third Point LLC, were 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 served as a key component of the Company's investment strategy and were utilized primarily to structure the portfolio, or individual investments, and to economically match the investment objectives of the Company. The Company's derivatives did not qualify as hedges for financial reporting purposes and were 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 entered into derivative contracts to manage credit risk, interest rate risk, currency exchange risk and other exposure risks. The Company used 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 allowed for an efficient means by which to trade certain asset classes.

Fair values of derivatives were determined by using quoted market prices, industry recognized pricing vendors and counterparty quotes when available; otherwise fair values were 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 into 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 were 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.

Prior to the change in the investment account structure, certain of the Company's investments were subject to withholding tax obligations related to dividends, capital gains and interest on certain investments. These withholding taxes were recorded when they became payable and were 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 February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842): Section A - Leases, Section B - Conforming Amendments Related to Leases and Section C - Background Information and Basis for Conclusions* ("ASU 2016-02"). ASU 2016-02 intends to improve financial reporting related to leasing transactions. The new standard affects all entities that lease assets such as real estate, airplanes and manufacturing equipment. ASU 2016-02 requires entities that lease assets, referred to as "lessees", to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption of ASU 2016-02 did not have a material effect 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 and did not have a significant effect on the Company.

Recently Issued Accounting Standards Not Yet Adopted

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 has evaluated the impact of this guidance; it is not expected to have a material impact on the Company's consolidated financial statements.

In November 2019, the FASB issued Accounting Standards Update 2019-11, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses* ("ASU 2019-11"). This update makes improvements to clarify or to correct unintended application of guidance in ASC 326. Those changes did not impact the Company. ASU 2019-11 will be effective when the Company adopts ASU 2016-13 in 2020.

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.

In December 2019, the FASB issued Accounting Standards Update 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). The amendments in ASU 2019-12 simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify U.S. GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. This new pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

In January 2020, the FASB issued Accounting Standards Update 2020-01, *Investments-Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the Emerging Issues Task Force)* ("ASU 2020-01"). The amendments in ASU 2020-01 clarify certain interactions between the guidance to account for certain equity securities under Topic 321, the guidance to account for investments under the equity method of accounting in Topic 323, and the guidance in Topic 815, which could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. These amendments improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. ASU 2020-01 is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. This new pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

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, 2019 and 2018:

	2019	2018
Cash and cash equivalents	$ 52,161	$ 40,859
Restricted cash securing letter of credit facilities (1)	135,453	127,559
Restricted cash securing reinsurance contracts (2)	133,611	18,149
Total cash, cash equivalents and restricted cash (3)	321,225	186,567
Restricted investments securing reinsurance contracts (2)	7,327	9,243
Total cash, cash equivalents, restricted cash and restricted investments	$ 328,552	$ 195,810

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

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

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

4. Investments

The following is a summary of the net investments managed by Third Point LLC as of December 31, 2019 and 2018:

	2019	2018
Assets		
TP Fund	$ 23,158	$ 93,798
Debt securities	7,327	9,243
Total investments	30,485	103,041
Cash and cash equivalents	24,876	263
Restricted cash and cash equivalents	269,064	145,708
Due from brokers	—	178
Interest and dividends receivable	240	346
Other assets	3	—
Total assets	324,668	249,536
Liabilities		
Accounts payable and accrued expenses	98	20
Participation agreement with related party investment fund	—	421
Total liabilities	98	441
Total net investments managed by Third Point LLC	$ 324,570	$ 249,095

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, the Company, Third Point Re and Third Point Re BDA 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 as amended and restated on February 28, 2019 (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 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.

On February 28, 2019, the Company, Third Point Re and Third Point Re BDA entered into the Second Amended and Restated Exempted Limited Partnership Agreement of TP Fund (the “Amended LPA”), which amended and restated the 2018 LPA (as amended and restated by the Amended LPA, the “LPA”), with effect from January 1, 2019. The Amended LPA preserves 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. In addition, the Amended LPA revised the management fee from 1.5% per annum to 1.25% per annum effective from January 1, 2019. See Note 8 for additional information.

On July 31, 2018, the Company and Third Point Re BDA entered into the Collateral Assets Investment Management Agreement (the “2018 Collateral Assets IMA”) with Third Point LLC effective August 31, 2018, pursuant to which Third Point LLC will serve as investment manager of certain collateral assets not transferred to TP Fund (the “Collateral Assets”). The 2018 Collateral Assets IMA will continue in effect for so long as either the Company or Third Point Re BDA 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 May 24, 2019, the Company and Third Point Re USA entered into the Amended and Restated Collateral Assets Investment Management Agreement (the “Amended Collateral Assets IMA” and together with the 2018 Collateral Assets IMA, the “Collateral Assets IMA”) with Third Point LLC, effective May 24, 2019, pursuant to which, in addition to serving as the investment manager for the Company’s collateral assets, Third Point LLC will serve as investment manager of certain investment assets withdrawn from TP Fund. The Amended Collateral Assets IMA will continue in effect thereafter so long as either the Company or Third Point Re BDA remains a limited partner of TP Fund. The Company entered into the Amended Collateral Assets IMA to provide for Third Point LLC's management of a substantial portion of the Company’s assets that were reallocated from TP Fund into cash, U.S Treasuries and other fixed income investments. There are no management or performance fees under the Collateral Assets IMA.

5. Fair value measurements

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

	December 31, 2019			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
U.S. Treasury securities	$ —	$ 7,327	$ —	$ 7,327
Total debt securities	$ —	$ 7,327	$ —	7,327
Investments in funds valued at NAV				23,158
Total assets				$ 30,485

	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

The total change in unrealized gains (losses) on equity and debt securities held at the year ended December 31, 2019 were $nil and $0.2 million, respectively (2018 - $nil and $(0.1) million, respectively).

Debt securities

U.S. Treasury securities and sovereign debt securities are primarily priced by obtaining broker dealer quotes and other market information including actual market prices, 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 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.

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

	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	$ —

(1) Sales of investments measured at fair value using Level 3 inputs in the year ended December 31, 2018 include the impact of the change in investment account structure 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).

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

6. Derivatives

Prior to the change in the Company's investment account structure described in Note 4, the Company entered into derivative contracts. The following table sets forth, by major risk type, the Company's realized and unrealized gains (losses) relating to derivatives activity in the separate investment accounts for the year ended December 31, 2018. Realized and unrealized gains (losses) related to free standing derivatives were included in net investment income (loss) in the consolidated statements of income (loss).

	2018	
Free standing Derivatives - Primary Underlying Risk	**Realized Gain (Loss)**	**Unrealized Gain (Loss)**
Credit		
Credit Default Swaps - Protection Purchased	$ (259)	$ (51)
Credit Default Swaps - Protection Sold	(44)	94
Total Return Swaps - Long Contracts	449	(261)
Equity Price		
Contracts for Differences - Long Contracts	3,977	(1,872)
Contracts for Differences - Short Contracts	541	(440)
Total Return Swaps - Long Contracts	2,115	(2,007)
Total Return Swaps - Short Contracts	(2,098)	231
Interest Rates		
Interest Rate Swaptions	(236)	161
Sovereign Future Options - Long Contracts	50	—
Sovereign Future Options - Short Contracts	6	—
Sovereign Futures - Long Contracts	78	—
Sovereign Futures - Short Contracts	(139)	—
Total Return Swaps - Long Contracts	(923)	—
Foreign Currency Exchange Rates		
Foreign Currency Forward Contracts	(170)	552
Foreign Currency Future Options - Purchased	(14)	—
Foreign Currency Options - Purchased	629	—
Foreign Currency Options - Sold	(95)	—
	$ 3,867	$ (3,593)

7. Loss and loss adjustment expense reserves

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

	2019	2018
Case loss and loss adjustment expense reserves	$ 48,813	$ 45,046
Incurred but not reported loss and loss adjustment expense reserves	249,644	137,286
	$ 298,457	$ 182,332

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. Reserves are estimated on an individual contract basis. The Company typically initially reserves individual contracts to the expected loss and loss expense ratio in its pricing analysis. The Company also considers the level of adequacy of the pricing loss ratio estimates, and may make upward or downward adjustments in the aggregate reserves if there is evidence that the pricing loss ratio estimates are biased in one direction or the other. 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 analyses, 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.

Catastrophe event estimates

Some of the Company's contracts are exposed to losses from catastrophes (either natural catastrophes or man-made catastrophes). Given the high-severity, low-frequency nature of these events, the losses typically generated therefrom do not lend themselves to traditional actuarial reserving methods, such as those described above. Therefore, our reserving approach for these types of coverages is to estimate the ultimate cost associated with a single loss event rather than analyzing the historical development patterns of past losses for estimating ultimate losses for an entire contract. We estimate our reserves for these catastrophe events on a contract-by-contract basis by means of a review of policies with known or potential exposure to a particular loss event. We consider the following information when making these contract-by-contract estimates of catastrophe event losses: information provided by cedents and brokers; industry loss estimates; catastrophe model output; and the terms and conditions of the contracts with exposure to those events. Initial estimates are established in the period that a catastrophe event occurs and are then monitored each subsequent quarter, considering the latest information available.

There were no significant changes made to the Company's methodology for calculating loss and loss adjustment reserves for the year ended December 31, 2019.

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, 2019 and 2018:

	2019	2018
Gross reserves for loss and loss adjustment expenses, beginning of year	$ 182,332	$ 111,883
Less: loss and loss adjustment expenses recoverable, beginning of year	(136,749)	(83,912)
Net reserves for loss and loss adjustment expenses, beginning of year	45,583	27,971
Increase (decrease) in net loss and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	51,115	38,876
Prior years	(1,738)	(25)
Total incurred loss and loss adjustment expenses	49,377	38,851
Net loss and loss adjustment expenses paid in respect of losses occurring in:		
Current year	(5,724)	(9,977)
Prior years	(14,661)	(11,241)
Total net paid losses	(20,385)	(21,218)
Foreign currency translation	18	(21)
Net reserves for loss and loss adjustment expenses, end of year	74,593	45,583
Plus: loss and loss adjustment expenses recoverable, end of year	223,864	136,749
Gross reserves for loss and loss adjustment expenses, end of year	$ 298,457	$ 182,332

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 $1.7 million net decrease in prior years' reserves for the year ended December 31, 2019 includes $3.4 million of net favorable reserve development related to decreases in loss reserve estimates and $1.7 million increase in loss reserves resulting from increases in premium earnings estimates on certain contracts. The net decrease in loss reserves as well as the impact of any offsetting changes in acquisition costs as a result of sliding scale or profit commissions is explained as follows:

- The $3.4 million of net favorable prior years' reserve development for the year ended December 31, 2019 was accompanied by net increases of $0.3 million in acquisition costs, resulting in a $3.1 million improvement in the net underwriting results, primarily due to:
    - $2.8 million of net favorable underwriting loss development relating to workers' compensation contracts. The favorable development was the result of better than expected loss experience.
- The $1.7 million net increase in loss and loss adjustment expenses incurred resulting from increases in premium earnings estimates was accompanied by a $0.3 million decrease in acquisition costs, for a total of $2.0 million increase in loss and loss adjustment expenses incurred and acquisition costs. The increase in loss and loss adjustment expenses incurred and acquisition costs was due to an increase in prior period earned premium of $2.0 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 minimal increase in net underwriting loss for the year ended December 31, 2019.
- In total, the change in net underwriting loss for prior periods due to loss reserve development and adjustments to premium earnings estimates resulted in a $3.1 million improvement in the net underwriting results for the year ended December 31, 2019.

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.

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, 2019. 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, 2019 and 2018.

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, 2019. 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 2018 is presented as supplementary information and is unaudited:

Property Catastrophe

Accident year	Loss and loss adjustment expenses incurred, net 2015	2016	2017	2018	2019	IBNR loss and LAE reserves, net
	<------------------------- Unaudited	---------------------------->				
2015	$ —	$ —	$ —	$ —	$ —	$ —
2016	—	—	—	—	—	—
2017	—	—	—	—	—	—
2018	—	—	—	—	—	—
2019	—	—	—	—	9,813	9,632
Total					$ 9,813	$ 9,632

Accident year	Cumulative net losses and loss adjustment expenses paid 2015	2016	2017	2018	2019
	<------------------------- Unaudited	---------------------------->			
2015	$ —	$ —	$ —	$ —	$ —
2016	—	—	—	—	—
2017	—	—	—	—	—
2018	—	—	—	—	—
2019	—	—	—	—	117
Total					$ 117
Property Catastrophe - net reserves for loss and loss adjustment expenses, end of year					$ 9,696

Other Property

Accident year	Loss and loss adjustment expenses incurred, net 2015	2016	2017	2018	2019	IBNR loss and LAE reserves, net
	<------------------------- Unaudited	---------------------------->				
2015	$ 1,663	$ 1,571	$ 1,637	$ 1,612	$ 1,612	$ 14
2016	—	3,337	3,602	3,476	3,476	38
2017	—	—	4,206	4,197	4,191	97
2018	—	—	—	4,579	4,571	144
2019	—	—	—	—	4,447	2,560
Total					$ 18,297	$ 2,853

Accident year	Cumulative net losses and loss adjustment expenses paid 2015	2016	2017	2018	2019
	<------------------------- Unaudited	---------------------------->			
2015	$ 392	$ 1,376	$ 1,486	$ 1,524	$ 1,571
2016	—	1,562	2,725	3,124	3,323
2017	—	—	2,406	3,489	3,929
2018	—	—	—	3,250	4,158
2019	—	—	—	—	1,282
Total					$ 14,263
Other Property - net reserves for loss and loss adjustment expenses, end of year					$ 4,034

Workers' Compensation

Accident year	2015	2016	2017	2018	2019	IBNR loss and LAE reserves, net
	Loss and loss adjustment expenses incurred, net					
	<------------------------- **Unaudited** ----------------------------->					
2015	$ 1,757	$ 1,545	$ 1,550	$ 1,416	$ 1,359	$ 172
2016	—	7,863	7,641	7,084	5,825	874
2017	—	—	7,609	7,458	6,071	1,557
2018	—	—	—	3,175	2,672	1,253
2019	—	—	—	—	2,874	2,325
Total					$ 18,801	$ 6,181

Accident year	2015	2016	2017	2018	2019
	Cumulative net losses and loss adjustment expenses paid				
	<------------------------- **Unaudited** ----------------------------->				
2015	$ 15	$ 413	$ 568	$ 804	$ 1,009
2016	—	531	2,372	3,446	4,066
2017	—	—	674	2,475	3,385
2018	—	—	—	215	962
2019	—	—	—	—	224
Total					$ 9,646
Workers' Compensation - net reserves for loss and loss adjustment expenses, end of year					$ 9,155

Auto

Accident year	2015	2016	2017	2018	2019	IBNR loss and LAE reserves, net
	Loss and loss adjustment expenses incurred, net					
	<------------------------- **Unaudited** ----------------------------->					
2015	$ 7,991	$ 9,142	$ 9,210	$ 9,241	$ 9,219	$ 7
2016	—	18,801	20,807	20,944	20,964	82
2017	—	—	11,349	11,877	11,853	202
2018	—	—	—	11,202	10,686	344
2019	—	—	—	—	6,389	2,073
Total					$ 59,111	$ 2,708

Accident year	2015	2016	2017	2018	2019
	Cumulative net losses and loss adjustment expenses paid				
	<------------------------- **Unaudited** ----------------------------->				
2015	$ 2,291	$ 8,276	$ 8,765	$ 9,073	$ 9,129
2016	—	9,011	18,775	20,006	20,601
2017	—	—	5,887	10,478	11,345
2018	—	—	—	5,296	9,721
2019	—	—	—	—	2,733
Total					$ 53,529
Auto - net reserves for loss and loss adjustment expenses, end of year					$ 5,582

Other Casualty

Loss and loss adjustment expenses incurred, net						
Accident year	2015	2016	2017	2018	2019	IBNR loss and LAE reserves, net
	<------------------------- Unaudited			---------------------------->		
2015	$ 230	$ 335	$ 310	$ 335	$ 292	$ 152
2016	—	1,391	1,465	1,562	1,361	734
2017	—	—	1,951	2,063	2,128	1,406
2018	—	—	—	10,297	10,612	7,717
2019	—	—	—	—	7,628	6,966
Total					$ 22,021	$ 16,975

Cumulative net losses and loss adjustment expenses paid					
Accident year	2015	2016	2017	2018	2019
	<------------------------- Unaudited			---------------------------->	
2015	$ —	$ —	$ —	$ 48	$ 122
2016	—	—	—	183	499
2017	—	—	—	54	266
2018	—	—	—	80	1,087
2019	—	—	—	—	219
Total					$ 2,193
Other Casualty - net reserves for loss and loss adjustment expenses, end of year					$ 19,828

Credit & Financial Lines

Loss and loss adjustment expenses incurred, net						
Accident year	2015	2016	2017	2018	2019	IBNR loss and LAE reserves, net
	<------------------------- Unaudited			---------------------------->		
2015	$ 126	$ 100	$ 106	$ 119	$ 141	$ (1)
2016	—	308	357	403	476	(4)
2017	—	—	262	256	240	(2)
2018	—	—	—	136	105	—
2019	—	—	—	—	27	27
Total					$ 989	$ 20

Cumulative net losses and loss adjustment expenses paid					
Accident year	2015	2016	2017	2018	2019
	<------------------------- Unaudited			---------------------------->	
2015	$ 9	$ 91	$ 90	$ 115	$ 142
2016	—	214	306	388	480
2017	—	—	224	247	242
2018	—	—	—	131	106
2019	—	—	—	—	—
Total					$ 970
Credit & Financial - net reserves for loss and loss adjustment expenses, end of year					$ 19

Multi-line

	Loss and loss adjustment expenses incurred, net					
Accident year	**2015**	**2016**	**2017**	**2018**	**2019**	**IBNR loss and LAE reserves, net**
	<------------------------- **Unaudited** ---------------------------->					
2015	$ —	$ —	$ —	$ —	$ —	$ —
2016	—	—	—	—	—	—
2017	—	—	—	—	—	—
2018	—	—	—	8,825	10,548	5,365
2019	—	—	—	—	19,092	17,940
Total					$ 29,640	$ 23,305

	Cumulative net losses and loss adjustment expenses paid				
Accident year	**2015**	**2016**	**2017**	**2018**	**2019**
	<------------------------- **Unaudited** ---------------------------->				
2015	$ —	$ —	$ —	$ —	$ —
2016	—	—	—	—	—
2017	—	—	—	—	—
2018	—	—	—	766	3,340
2019	—	—	—	—	739
Total					$ 4,079
Multi-line - net reserves for loss and loss adjustment expenses, end of year					$ 25,561

Other Specialty

	Loss and loss adjustment expenses incurred, net					
Accident year	**2015**	**2016**	**2017**	**2018**	**2019**	**IBNR loss and LAE reserves, net**
	<------------------------- **Unaudited** ---------------------------->					
2015	$ —	$ —	$ —	$ —	$ —	$ —
2016	—	—	—	—	—	—
2017	—	—	179	179	203	60
2018	—	—	—	656	746	218
2019	—	—	—	—	850	440
Total					$ 1,799	$ 718

	Cumulative net losses and loss adjustment expenses paid				
Accident year	**2015**	**2016**	**2017**	**2018**	**2019**
	<------------------------- **Unaudited** ---------------------------->				
2015	$ —	$ —	$ —	$ —	$ —
2016	—	—	—	—	—
2017	—	—	1	65	144
2018	—	—	—	239	527
2019	—	—	—	—	410
Total					$ 1,081
Other Specialty - net reserves for loss and loss adjustment expenses, end of year					$ 718

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, 2019:

		2019
Property and Casualty Reinsurance		
Property Catastrophe	$	9,696
Other Property		4,034
Workers' Compensation		9,155
Auto		5,582
Other Casualty		19,828
Credit & Financial Lines		19
Multi-line		25,561
Other Specialty		718
Net reserves for loss and loss adjustment expenses, end of year		74,593
Loss and loss adjustment expenses recoverable		223,864
Gross reserves for loss and loss adjustment expenses, end of year	$	298,457

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, 2019:

	Year 1	Year 2	Year 3	Year 4	Year 5
	(Unaudited)				
Prospective reinsurance contracts					
Property Catastrophe	1.2%	n/a	n/a	n/a	n/a
Other Property	45.3%	35.1%	9.6%	4.0%	2.9%
Workers' Compensation	7.4%	29.6%	14.9%	14.1%	15.0%
Auto	42.0%	47.9%	6.2%	3.1%	0.6%
Other Casualty	0.7%	3.0%	7.8%	19.8%	25.2%
Credit & Financial Lines	53.9%	16.0%	4.8%	18.3%	19.3%
Multi-line	5.6%	24.4%	n/a	n/a	n/a
Other Specialty	27.0%	35.1%	38.6%	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.

8. Management and performance fees

Prior to the change in the Company's investment account structure described in Note 4, the Company and Third Point Re were parties to the Amended and Restated Joint Venture and Investment Management Agreement (the "JV Agreement") with Third Point LLC and Third Point Advisors LLC ("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 and Third Point Re BDA invested in the TP Fund. Effective January 1, 2019, the Company, Third Point Re and Third Point Re BDA entered into the Amended LPA, together with the 2018 LPA the "LPA", which amended and restated the 2018 LPA.

Management fees

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

Performance fees

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

Prior to the change in the investment account structure described in Note 4, the performance fee accrued on net investment income was included in liabilities as a performance fee payable to related party during the period, unless funds were redeemed from the 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 subsequently 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, provided that the loss recovery account balance shall be reduced proportionately to reflect any withdrawals from TP Fund. The Amended LPA preserves the loss carryforward attributable to our investment in TP Fund when contributions to TP Fund are made within nine months of certain types of withdrawals from TP Fund. During the year ended December 31, 2019, the Company forfeited amounts under the Loss Recovery Account of $1.3 million, as a result of net redemptions from TP Fund during the period. As of December 31, 2019, the Loss Recovery Account for the Company's investment in TP Fund was $0.5 million (December 31, 2018 - $3.8 million). These amounts have not been recorded in the Company's consolidated balance sheets.

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, 2019 and 2018 were as follows:

	2019	2018
Management fees - Third Point LLC	$ —	$ 3,148
Performance fees - Third Point Advisors LLC	—	996
Management and performance fees to related parties as reported in the Company's consolidated statements of income (loss) (1)	—	4,144
Management and performance fees included in net investment income (loss) from investment in related party investment fund (before loss carryforward)	2,904	403
Performance fees - loss carryforward utilized	(1,921)	—
Total management and performance fees to related parties	$ 983	$ 4,547

(1) 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 were presented within net investment income (loss) from investment in related party investment fund in the consolidated statements of income (loss).

9. Deposit accounted contracts

The Company received consideration of $6.1 million for a reinsurance contract that is accounted for using the deposit method of accounting for the year ended December 31, 2019.

10. Letter of credit facilities

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

	Letters of Credit		Collateral
	Committed Capacity	Issued	Cash and Cash Equivalents
Committed - Secured letters of credit facilities	$ 135,000	$ 36,477	$ 36,477
Uncommitted - Secured letters of credit facilities	n/a	98,976	98,976
	$ 135,000	$ 135,453	$ 135,453

(1) The $200.0 million syndicated unsecured letter of credit facility expired on July 30, 2019 and was not renewed.

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. See Note 3 for additional information.

11. Net investment income (loss)

Net investment income (loss) for the years ended December 31, 2019 and 2018 consisted of the following:

	2019	2018
Net investment income (loss) by type		
Net realized gains on investments and investment derivatives	$ 131	$ 54,627
Net change in unrealized gains (losses) on investments and investment derivatives	233	(49,703)
Net gains on currencies	1,125	163
Dividend and interest income	3,254	8,074
Dividends paid on securities sold, not yet purchased	—	(640)
Other expenses	(206)	(2,780)
Management and performance fees to related parties	—	(4,144)
Net investment income (loss) from investment in related party investment fund (1)	12,360	(35,167)
Net investment income (loss)	$ 16,897	$ (29,570)

(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 (loss) from investment in related party investment fund from the effective date of the transition. See Note 8 for additional information regarding management and performance fees.

12. 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.

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, 2019 and 2018, the Company recorded income tax (expense) benefit, as follows:

	2019	2018
Income tax expense (benefit)	$ 2,397	$ (10,469)
Withholding taxes on certain investment transactions	—	382
Income tax expense (benefit)	$ 2,397	$ (10,087)

The following table presents the Company's current and deferred incomes taxes for the year ended December 31, 2019 and 2018:

	2019	2018
Current tax expense	$ 2	$ 383
Deferred tax expense (benefit)	2,395	(10,470)
Income tax expense (benefit)	$ 2,397	$ (10,087)

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, 2019 and 2018:

	2019	2018
Deferred tax assets:		
Discounting of loss and loss adjustment expense reserves	$ 786	$ 534
Unearned premiums	1,774	1,567
Temporary differences in recognition of expenses	334	319
Net operating loss carryforward	3,340	2,549
Total deferred tax assets	6,234	4,969
Deferred tax liabilities:		
Deferred acquisition costs	1,379	1,490
Unrealized gains (losses) on investments	3,366	(405)
Total deferred tax liabilities	4,745	1,085
Net deferred tax assets	$ 1,489	$ 3,884

The deferred tax assets and liabilities as of December 31, 2019 were primarily related to U.S. income tax. To evaluate the recoverability of the deferred tax assets, the Company considers the timing of the reversal of deferred income and expense items as well as the likelihood that the Company will generate sufficient taxable income to realize future tax benefits. The Company believes that it is more likely than not that it will generate sufficient taxable income and realize the future tax benefits in order to recover the deferred assets and, accordingly, no valuation allowance was recorded as of December 31, 2019 and 2018. As of December 31, 2019, deferred tax assets included $16.9 million related to net operating loss carryforwards. A portion of the net operating losses generated prior to January 1, 2018 can be carried forward for twenty years and will begin to expire in 2035. Losses generated after January 1, 2018 can generally be carried forward indefinitely.

13. 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, 2019, 9,006,995 (December 31, 2018 - 9,017,930) 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, 2019 and 2018:

	2019	2018
Restricted shares with service condition (1)	$ 189	$ —
Restricted shares with service and performance condition	169	907
	$ 358	$ 907

(1) Net of forfeitures of $nil in the year ended December 31, 2019 (December 31, 2018 - $nil)

As of December 31, 2019, the Company had $1.2 million (December 31, 2018 - $1.6 million) of unamortized share compensation expense, which is expected to be amortized over a weighted average period of 1.5 years (December 31, 2018 - 1.4 years).

Management and director options

The management options issued under the Share Incentive Plan were subject to a service and performance condition. The service condition will be met with respect to 20% of the management options on each of the first five anniversary dates following the grant date of the management options. The performance condition with respect to the management options was met as a result of the IPO.

As of December 31, 2019, there were no options outstanding. 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.

For the year ended December 31, 2019, the Company received proceeds of $1.9 million (2018 - $nil) 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.

The restricted shares issued to employees in 2019 vest in equal annual installments over three years based on continued employment. For the year ended December 31, 2018, Third Point Re did not issue restricted shares with service condition only to employees of the Company.

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, 2019 and 2018.

14. Noncontrolling interest in related party

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, 2019, the Company and TP GP hold interests of approximately 2.2% and 16.1%, respectively, of the net asset value of TP Fund. As a result, both entities hold significant financial interests in TP Fund. However, TP GP controls all of the investment decision making authority and the Company does not have the power to direct the activities which most significantly impact the economic performance of TP Fund. As a result, the Company is not considered the primary beneficiary and does not consolidate TP Fund.

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

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

Prior investment structure

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 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 year ended December 31, 2018:

		2018
Balance, beginning of period	$	16,007
Net income attributable to total noncontrolling interests in related party		82
Contributions		80
Redemptions [(1)]		(16,169)
Balance, end of period	$	—

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

15. Related party transactions

In addition to the transactions disclosed in Notes 4, 8 and 14 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 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 consolidated statements of income (loss) include the following amounts related to the reinsurance contract with Third Point Re BDA for the years ended December 31, 2019 and 2018:

	2019	2018
Balance sheets		
Unearned premium ceded	$ 126,731	$ 111,923
Deferred acquisition costs, net	29,132	27,837
Loss and loss adjustment expenses ceded	223,781	136,749
Reinsurance balances payable	164,992	104,569
Statements of income		
Gross premiums ceded	223,344	152,662
Earned premiums ceded	208,537	157,462
Loss and loss adjustment expenses	148,132	116,553
Acquisition costs, net	$ 56,966	$ 51,722

As of December 31, 2019, Third Point Re BDA issued $53.2 million (December 31, 2018 - $49.6 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, 2019, the Company recognized $2.5 million (2018 - $2.0 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, 2019, the Company recognized fees of $0.3 million (2018 - $0.1 million), 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").

16. 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.

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.

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.

17. 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, 2019 was $0.2 million (2018 - $0.2 million).

Future minimum rental commitments as of December 31, 2019 under this lease are expected to be as follows:

2020	$ 232
2021	236
2022	39
2023	—
2024	—
Thereafter	—
	$ 507

Agreements

Third Point LLC

As a result of the 2018 LPA effective August 31, 2018, management fees are charged at the TP Fund level and were calculated based on 1.5% of the investment in TP Fund and multiplied by an exposure multiplier computed by dividing the average daily investment exposure leverage of the TP Fund by the average daily investment exposure leverage of the Offshore Master Fund. As a result of the Amended LPA effective January 1, 2019, the management fee was revised from 1.5% to 1.25% per annum, with no change to the calculation as part of the 2018 LPA.

Investments

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

Letters of Credit

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

Litigation

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

18. 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, 2019 and 2018, Third Point Re USA met the ECR.

As of December 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018:

	2019	2018
Actual statutory capital and surplus	$ 274,221	$ 255,872
Required statutory capital and surplus	$ 112,601	$ 100,000

The Company had statutory net income (loss) of $9.0 million and $(29.5) million for the years ended December 31, 2019 and 2018, 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, 2019, Third Point Re USA could pay dividends in 2020 of approximately $21.6 million (December 31, 2018 - $1.4 million). In February 2019, Third Point Re USA declared and paid dividends of $4.1 million to TPRUSA.

19. Subsequent events

The Company has evaluated subsequent events through April 8, 2020, the date of issuance of the audited consolidated financial statements.

In March 2020, the Company entered into a new quota share and aggregate stop loss reinsurance agreement with Third Point Re BDA effective January 1, 2020.