

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

FORM 10-K

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from to

Commission file number 001-36169

BLUE CAPITAL REINSURANCE HOLDINGS LTD.

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

98-1120002
(I.R.S. Employer
Identification No.)

Waterloo House
100 Pitts Bay Road
Pembroke, Bermuda HM 08
(Address of principal executive offices)

Registrant's telephone number, including area code: **(441) 278-0400**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Shares, par value \$1.00 per share	BCRH	New York Stock Exchange
Common Shares, par value \$1.00 per share	BCRHLBH	Bermuda Stock Exchange

Securities registered pursuant to Section 12(g) of the Act
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the outstanding Common Shares held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter (based on the New York Stock Exchange closing price as of June 30, 2019 for Common Shares) was \$38,602,573.

As of February 26, 2020, 8,774,782 Common Shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Item 1. *Business*," "Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*" and elsewhere in this Annual Report on Form 10-K for the year ended December 31, 2019 (the "Form 10-K") may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"). The PSLRA provides a "safe harbor" for forward-looking statements. These forward-looking statements reflect our current views with respect to future events, including special distributions and our run-off financial performance. Such statements include forward-looking statements with respect to us specifically and the insurance and reinsurance business generally, investments, capital markets and the general economic environments in which we operate. Statements which include the words "expect," "intend," "plan," "believe," "project," "anticipate," "seek," "will," and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the PSLRA or otherwise.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the timing and amount of special distributions and the Company's run-off performance to differ materially from those indicated in such statements. We believe that these factors include, but are not limited to the following:

- the amount that the Company will be required to reserve to provide for the Company's contingent liabilities and obligations;
- the expenses that the Company will incur during the winding up, including general administrative and overhead costs and legal and auditing expenses;
- the ability of the Company to favorably resolve any litigation that may be commenced against the Company in connection with the winding up and ultimate liquidation;
- the tax treatment of special distributions;
- the delisting of the Company's common shares in connection with the winding up;
- the possibility of severe or unanticipated losses from natural and man-made catastrophes, including those that may result from changes in climate conditions, including global temperatures and expected sea levels;
- the effectiveness of our loss limitation methods;
- our dependence on our Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), both of whom are not our direct employees, and our service providers including Blue Capital Management Ltd. (the "Manager") which provides various underwriting, investment and administrative services;
- our ability to effectively execute the planned winding up and liquidation of the Company;
- continued acceptance of our business strategy (including our orderly run-off), security and financial condition by regulators, brokers and insureds;
- failure by any service provider to carry out its obligations to us in accordance with the terms of its appointment;
- conflicts of interest that could result from our relationships and potential overlaps in business with related parties, including Sompo International Holdings Ltd. (a wholly owned subsidiary of Sompo Holdings, Inc.) ("Sompo International") and its subsidiaries;
- the cyclical nature of the property catastrophe insurance and reinsurance industry;
- the inherent uncertainty of our risk management process, which is subject to, among other things, industry loss estimates and estimates generated by modeling techniques;
- the inherent uncertainties in establishing loss and loss adjustment expense ("LAE") reserves and unanticipated adjustments to premium estimates;
- general economic and market conditions, including inflation, volatility in the credit and capital markets and conditions specific to the insurance and reinsurance markets in which we operate;
- changes in and the impact of governmental legislation or regulation, including changes in tax laws in the jurisdictions where we conduct business;
- statutory or regulatory developments, including those involving tax policy, reinsurance and other regulatory matters such as the adoption of proposed legislation that would affect Bermuda-headquartered companies or Bermuda-based insurers or reinsurers;

- potential treatment of us as an investment company or a passive foreign investment company for purposes of U.S. securities laws or U.S. federal taxation, respectively;
- the impact of the withdrawal of the United Kingdom from the European Union;
- the amount and timing of reinsurance recoveries;

- acts of terrorism, political unrest, outbreak of war and other hostilities or other non-forecasted and unpredictable events;
- the ability of the counterparty institutions with which we conduct business to continue to meet their obligations to us;
- operational risks, including the risk of fraud and any errors and omissions, as well as technology breaches or failures;
- changes in tax regulations or laws applicable to us, our subsidiaries, brokers or customers;
- our dependence as a holding company upon dividends or distributions from our operating subsidiaries;
- our dependence on regulatory approvals for special distributions; and
- changes in accounting principles or the application of such principles by regulators.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this Form 10-K, including the risk factors set forth in Item 1A, "Risk Factors." We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the dates on which they are made.

Unless the context suggests otherwise, references in this Annual Report on Form 10-K to the "Company" refer to Blue Capital Reinsurance Holdings Ltd., and references to "we," "us," "our" or "Blue Capital" refer to Blue Capital Reinsurance Holdings Ltd. and its consolidated subsidiaries. References to "Blue Capital Re" refer to Blue Capital Re Ltd., the Company's wholly-owned reinsurance company, which is licensed as a Class 3A insurer in Bermuda under the Insurance Act 1978, as amended and its related regulations of Bermuda (the "Insurance Act"). References to "Blue Capital Re ILS" refer to Blue Capital Re ILS Ltd., Blue Capital Re's wholly-owned subsidiary. References to "insurer" also include "reinsurer." References to "Sompo International" refer to Sompo International Holdings Ltd. which through its operating subsidiaries focuses on underwriting specialty lines of personal and commercial property and casualty insurance and reinsurance on a global basis. References to "Blue Water Re" refer to Blue Water Re Ltd., a wholly-owned subsidiary of Sompo International. Blue Water Re is registered in Bermuda under the Insurance Act as a special purpose insurer, which provides collateralized property catastrophe reinsurance coverage and related products. The Manager, a wholly-owned subsidiary of Sompo International, is licensed in Bermuda to carry on investment business under the Investment Business Act 2003, as amended (the "Investment Business Act") and as an agent and manager under the Insurance Act. The Manager provides underwriting, investment management, insurance management and other administrative services to the Company.

References in this Annual Report on Form 10-K to "GAAP," refer to accounting principles generally accepted in the U.S.

PART I

Item 1. *Business*

OVERVIEW

The Company

We are a Bermuda exempted limited liability company that, through our subsidiaries, offered collateralized reinsurance in the property catastrophe market and invested in various insurance-linked securities. We were incorporated under the laws of Bermuda on June 24, 2013 and we commenced operations on November 12, 2013. Our headquarters and principal executive offices are located at Waterloo House, 100 Pitts Bay Road, Pembroke HM 08, Bermuda, which is also our registered office.

Our Common Shares trade on the New York Stock Exchange under the symbol "BCRH" and on the Bermuda Stock Exchange under the symbol "BCRH.BH."

Our largest shareholder, Sampo International, is a holding company headquartered in Bermuda which through its operating subsidiaries focuses on underwriting specialty lines of personal and commercial property and casualty insurance and reinsurance on a global basis. Sampo International together with its wholly owned subsidiary, Endurance Specialty Insurance Ltd. ("Endurance Bermuda"), owned 33.2% of the Company's outstanding Common Shares as of December 31, 2019.

On July 25, 2019, after considering strategic alternatives, the Company announced a plan to cease active operations and pursue an orderly run-off of its liabilities and in-force portfolio and return capital to shareholders. As and when sufficient capital becomes available after settlement of existing liabilities and expenses and receipt of any necessary regulator approvals, the Company expects to declare special distributions to shareholders.

Prior to commencing an orderly run-off, our business strategy was to build and maintain a diversified portfolio of reinsurance risks that were intended to generate underwriting profits, which we intended principally to distribute to our shareholders through the payment of dividends, with returns commensurate with the amount of risk assumed. We provided our shareholders with the opportunity to own an alternative asset class whose returns we believe have historically been largely uncorrelated to those of other asset classes, such as global equities and bonds.

Prior to ceasing active operations, we operated as a single business segment through our wholly-owned subsidiaries: (i) Blue Capital Re, a Bermuda exempted limited liability company registered as a Class 3A insurer in Bermuda under the Insurance Act, which provided collateralized reinsurance; and (ii) Blue Capital Re ILS, a Bermuda exempted limited liability company which conducted hedging and other investment activities, including entering into industry loss warranties and purchasing catastrophe bonds, in support of Blue Capital Re's operations.

Subsidiaries of Sampo International manage our reinsurance underwriting decisions and provide us with the services of our CEO and CFO. Through this relationship, we leverage Sampo International's reinsurance underwriting expertise and infrastructure to conduct our business.

The Property Reinsurance Market

Property insurance companies issue insurance policies in exchange for premiums paid by the policyholder. An insurance policy is a contract between the insurance company and the policyholder whereby the insurance company agrees to pay for losses suffered by the policyholder that are covered under that contract. Property insurance typically covers the financial consequences of accidental losses to the policyholder's property due to natural and man-made catastrophes, subject to deductibles and other policy limitations. Casualty insurance mainly protects a person or a business against legal liability for losses caused by injury to other people or the property of others. Many insurance policies will cover both property and casualty risks. However, given the difference in nature between property and casualty risks, the reinsurance markets for these types of risks tend to be separate and distinct. Our reinsurance activities focused predominately on property risks.

Property reinsurance companies assume, from both insurance companies (known as "ceding companies" or "cedants") and other reinsurance companies (known as "retrocedants"), as well as other property insurance capital providers, such as government or state-sponsored catastrophe funds, all or a portion of the property insurance or reinsurance risks that the ceding company or retrocedant has underwritten under one or more insurance or reinsurance policies. In return, the reinsurer receives a premium for the risks assumed from the ceding company or retrocedant. When reinsurance companies purchase reinsurance to cover their own risks assumed from ceding companies, this is known as "retrocessional reinsurance." Reinsurance or

retrocessional reinsurance can benefit a ceding company or retrocedant, as applicable, in various ways, such as by reducing exposure to individual risks and by providing catastrophe protection from larger or multiple losses. Ceding companies and retrocedants can use reinsurance or retrocessional reinsurance to manage their overall risk profile or to create additional underwriting capacity, allowing them to accept larger risks or to write more business than would otherwise be possible, absent an increase in their capital or surplus.

Our Competitive Strengths

Prior to commencing an orderly run-off, we believe we took advantage of the following competitive strengths:

- **Access to a Global Specialty Provider of Property and Casualty Insurance and Reinsurance with an Extensive Infrastructure.** We benefited substantially from the Manager's relationship with Sompo International by accessing and leveraging Sompo International's management talent, proprietary reinsurance modeling tools, underwriting expertise, proprietary risk management systems and longstanding broker/client relationships. The Manager's affiliation with Sompo International enabled us to deploy our capital to build a diversified portfolio of reinsurance risks with what we believed to be an attractive risk-adjusted return potential for our shareholders. We also benefited from Sompo International's scale, experience and reputation in pricing reinsurance contracts and achieving key policy terms and conditions, which we considered a competitive advantage relative to other independent or small reinsurance platforms. We continue to benefit from Sompo International's existing middle- and back-office support infrastructure.
- **Differentiated Approach to Reinsurance Risk Selection.** The Manager performed our risk selection process, subject to the oversight of the Board, and primarily targeted counterparties who supplied us with the full spectrum of information associated with each exposure. Our risk selection process included using the Manager's specific knowledge of the ceding insurer and underlying risks, including detailed portfolio data, such as home type, location, building code and date of construction. Additionally, the Manager analyzed the historical loss performance of the ceding insurer, its market position, its management's capabilities and its claims mitigation history. The Manager generally acted as a "quoting market" participant, which means that it provided an initial quote to the broker rather than responding to quotes provided by the broker. We believe that this allowed the Manager to be more selective in choosing the reinsurance contracts it selected for us and enhanced its relationship with brokers. We benefited from the Manager's use of Sompo International's analytics, risk management and actuarial team, which enabled the Manager to analyze the granular data collected using proprietary analytical systems on our behalf in order to determine the appropriate pricing for the risks assumed. The Manager used its and Sompo International's proprietary catastrophe pricing and risk management systems, various third-party models and its underwriting judgment in order to build a high quality portfolio. The Manager also sought to exploit pricing inefficiencies that may have existed in the market from time to time.
- **Access to Reinsurance Products Not Generally Available to Collateralized Reinsurers.** In addition to offering collateralized reinsurance directly to third-party insurance and reinsurance companies, we further benefited from leveraging our relationship with Sompo International in order to gain access to a broader range of reinsurance business than we believe was typically available to most collateralized reinsurers. Through a retrocessional contract (the "BW Retrocessional Agreement"), between Blue Capital Re and Blue Water Re, Blue Water Re had the option to cede to Blue Capital Re up to 100% of its participation in the ceded reinsurance business it wrote, provided that such business was in accordance with Blue Capital Re's underwriting guidelines. Pursuant to the BW Retrocessional Agreement, we participated in: (i) retrocessional, quota share or other agreements between Blue Water Re and Sompo International or other third-party reinsurers, which provided us with the opportunity to participate in a diversified portfolio of risks on a proportional basis; and (ii) fronting agreements between Blue Water Re and Sompo International or other well capitalized third-party rated reinsurers, which allowed us to transact business with counterparties who prefer to enter into contracts with rated reinsurers. These arrangements enhanced the depth of opportunities available to us, increased the diversification of our portfolio and provided the opportunity to deliver enhanced risk-adjusted returns compared to other collateralized reinsurers.
- **Experienced Management Team.** Our CEO and CFO, as well as Sompo International's senior managers responsible for the day-to-day oversight of the Manager, have significant experience in the reinsurance industry, including the supervision of both traditional reinsurance markets and insurance-linked securities. We also benefited from the significant experience of the Manager's Investment and Underwriting Committees.
- **Alignment of Interests Between Our Shareholders and Sompo International.** Sompo International has historically owned approximately one third of our outstanding Common Shares. We believe that Sompo International's significant investment in us and our relationship with the Manager aligned Sompo International's interests with those of our shareholders and incentivized Sompo International to maximize returns, while managing risks, for our shareholders.

Our Strategy

Our business strategy was to build and maintain a diversified portfolio of reinsurance risks that would generate underwriting profits, which we intended principally to distribute to our shareholders through the payment of dividends, with returns commensurate with the amount of risk assumed. We implemented our strategy through our subsidiaries Blue Capital Re and Blue Capital Re ILS. Blue Capital Re provided collateralized reinsurance and entered into industry loss warranties in the form of insurance contracts. Blue Capital Re ILS conducted hedging and other investment activities, including investing in insurance-linked securities, in support of Blue Capital Re's operations.

We aimed to maintain a balanced portfolio of predominantly, but not exclusively, natural and man-made catastrophe risks, diversified by peril, geography and attachment point. The Manager selected risks on our behalf, primarily from the global property catastrophe reinsurance market. Our strategy was to build and maintain a flexible and diversified portfolio of reinsurance risk exposures by pursuing a broad range of reinsurance opportunities. We believe that allocations to traditional reinsurance contracts, either fronted or collateralized by trust account or letter of credit, industry loss warranties, catastrophe bonds and other insurance-linked securities enhanced our overall risk diversification and offered attractive relative value at different points in time, depending on market conditions. The Manager used Sompo International's sophisticated risk management techniques to monitor correlation risk, and it sought to enhance our underwriting returns through careful risk selection using advanced capital allocation methodologies. We also actively sought to write more business in classes that we considered to be favorably priced based on the risk-adjusted return potential and to avoid those classes that we considered to be comparatively unfavorably priced, such as those suffering from intense price competition or poor fundamentals. We believe a balanced portfolio of risks reduced the volatility of returns and optimized value for our shareholders.

Quota Share Retrocessional Agreements with Sompo International or Other Third-Party Reinsurers

Blue Capital Re has participated in quota share retrocessional reinsurance agreements with Sompo International pursuant to the BW Retrocessional Agreement, or directly with other sophisticated reinsurance or insurance companies (those with either a minimum A.M. Best financial strength rating of "A-" (Excellent) or better (or an equivalent rating with another recognized rating agency)), or insurers and reinsurers that are not rated or do not fall within this threshold on a case-by-case basis. These agreements allowed Blue Capital Re to participate in an agreed percentage of the risks and premiums of certain reinsurance contracts on a proportional basis, with exposure capped at the amount of collateral required to support the contract. In exchange, the ceding reinsurer charged Blue Capital Re a commission override, which is a percentage of the premiums on these contracts, to compensate it for sourcing the business and retaining the tail risk (meaning the amount of proportional contractual limits in excess of collateral required) of these reinsurance contracts. The ceding reinsurer was also reimbursed for acquisition costs, including brokerage and federal excise taxes, and sometimes received a profit commission in the event of favorable loss experience. These arrangements were negotiated on a case-by-case basis, allowing Blue Capital Re to partake either in a portion or the entirety of the reinsurer's portfolio or only in certain classes of reinsurance, as determined by the Manager, subject to our underwriting guidelines and the oversight of the Board.

Third-Party Reinsurance, Direct with Cedant or via a Fronting Arrangement

Blue Capital Re also provided reinsurance to third-party insurance and reinsurance companies through reinsurance contracts, either directly with the cedant or on a fronted basis. Blue Capital Re's exposure under these reinsurance contracts was calculated on an ultimate net loss basis, ultimate net loss meaning the actual loss or losses paid out by the cedant or retrocedant and for which the cedant or retrocedant has become liable in respect of insurance policies entered into by the cedant as an insurer or reinsurer. Generally, cedants decide to cede business to a reinsurer based on the quality of a reinsurer's financial strength rating or, if it is unrated, on the demonstrated ability of a reinsurer to cover claims. Blue Capital Re fully collateralized its reinsurance obligations. The collateral is held in trust for the term of the related contract (or, in the event of a covered loss, until the resolution of any claims under the contract).

As an alternative to the collateralized markets, Blue Capital Re also participated in fronting arrangements, either through the BW Retrocessional Agreement or directly with other well capitalized third-party rated reinsurers that satisfied the Manager's detailed credit review. Under a typical fronting arrangement, a rated insurer issues an insurance policy on behalf of an unrated, often cash-collateralized, reinsurer without the intention of retaining any of the risk. The economic risk remains with the unrated reinsurer via an indemnity/reinsurance agreement but the contractual and credit risk is assumed by the fronting company since it is required to honor obligations under the policy if the unrated reinsurer fails to indemnify the fronting company.

The reason for these fronting arrangements is that, just as some counterparties may prefer fully-collateralized reinsurance, other counterparties may prefer to enter into reinsurance contracts with a rated reinsurer. Alternatively, there have been situations in which the structure of the reinsurance contract would otherwise render direct collateralization uneconomic (for example, if the contract provided for reinstatable limits, which are described below). By entering into a fronting arrangement, Blue Capital Re was able to participate in reinsurance opportunities that would not otherwise have been available to us, although Blue Capital Re was still required to provide collateral to the fronting reinsurer.

Under typical fronting agreements, all of the reinsurance risks are retroceded to the reinsurer who, in turn, provides the fronting reinsurer with collateral in an amount equal to or greater than the contractual limit less the premium receivable plus any origination fees owed. A fronting fee, which is a percentage of net premiums written, is deducted from premiums paid to the reinsurer.

Other fronting agreements have included subsequent (or reinstated) contractual limits of coverage following a covered loss event in return for an additional premium. Under these agreements, Blue Capital Re was required to fully collateralize both the original limit and the reinstated limits. Reinstatement generally occurs under two circumstances: (i) automatically and with no additional premium other than the original premium; or (ii) automatically with an additional premium that is agreed upon when the policy is written.

Blue Water Re Retrocessional Agreement

Blue Capital Re also provided facultative retrocessional reinsurance to Blue Water Re pursuant to the BW Retrocessional Agreement. The terms of this agreement mirrored those of the original insurance policies. See "*Conflicts of Interest*" for information about the affiliation between Sampo International and us.

Blue Water Re is Sampo International's market-facing collateralized reinsurer, and focused on providing reinsurance protection to primary insurance companies globally. Blue Water Re underwrote and entered into collateralized reinsurance contracts with Sampo International and other third-party insurance companies, which transferred all or a portion of the risks and the premiums under these third-party insurance companies' contracts to Blue Water Re. All or a portion of these risks and premiums were then allocated to Blue Capital Re by way of the BW Retrocessional Agreement. Under this agreement, Blue Capital Re accepted risks from Blue Water Re in exchange for the corresponding premiums relating to the accepted risks.

Industry Loss Warranties

Blue Capital Re or Blue Capital Re ILS bought and sold industry loss warranties as a way to access certain risks. An industry loss warranty is a financial instrument designed to protect insurers or reinsurers from severe losses due to natural and man-made catastrophes and can take the form of either an insurance contract or a swap agreement. Under both forms, a premium is paid at the inception of the contract and, in return, a payout is made if a catastrophic event causes loss to the insurance industry in excess of a predetermined trigger amount. Industry loss warranties may also be triggered by other parametric measurements defined in the contract such as observed wind speeds, measured seismic activity or other factors. Industry loss warranties in the form of an insurance contract (also referred to as the "indemnity form") are typically dual-trigger instruments and, in addition to requiring a loss to the industry, require that the buyer of the protection actually suffer a loss from the triggering event. Blue Capital Re bought and sold industry loss warranties in the form of an insurance contract, and Blue Capital Re ILS bought and sold industry loss warranties in the form of a derivative contract.

Catastrophe Bonds

Blue Capital Re ILS also had the opportunity of purchasing catastrophe bonds to access certain risks. A catastrophe bond provides reinsurance protection in the event of a catastrophic event. The issuer pays the bondholder interest and repays the principal at maturity, but if a specified trigger condition, such as an indemnity, industry or parametric index or modeled loss, are met, then the issuer is no longer required to pay interest or repay some or all of the principal. Blue Capital Re ILS had the ability to buy, sell or, given sufficient scale to do so, issue catastrophe bonds.

Our Underwriting Guidelines

The Manager has had broad discretion to execute our underwriting strategy, subject to our underwriting guidelines and the oversight of the Board.

Our underwriting guidelines have applied in respect of any new underwriting decision at the time of such decision, using the information available to the Manager at that time. This includes information on the existing portfolio contract limits and modeled loss exposures by zone, as well as estimations of the potential impact on portfolio limits and modeled loss exposures from unquantified external factors. These factors have included industry loss events that have had the potential to cause loss to our portfolio and changes in methodology for calculating modeled losses. Based on the information available to the Manager at the time, if a new opportunity being considered would have caused a restriction to be breached, or if a restriction relevant to that new opportunity was already in breach, then that new opportunity was not allocated to us.

Our underwriting guidelines that we operated under are summarized below.

Class of Reinsurance

Our underwriting guidelines established maximum and minimum thresholds for the amount of each class of reinsurance, as follows (each expressed as a percentage of our shareholders' equity):

- 0% to 100% in indemnity reinsurance;
- 0% to 50% in indemnity retrocession;
- 0% to 100% in quota share retrocessional agreements;
- 0% to 50% in industry loss warranties;
- 0% to 20% in catastrophe bonds; and
- 0% to 20% in other non-property catastrophe risks.

We typically deployed at least 50% of our portfolio in indemnity reinsurance, indemnity retrocession and quota share retrocessional agreements. Taking into account our underwriting guidelines and the targeted allocation described above, the majority of our portfolio was allocated to traditional indemnity reinsurance (including quota share retrocessional agreements).

Geographic Diversity

We pursued a geographically diversified reinsurance strategy with an emphasis on the 14 individual zones set out below. We sought to maintain a projected net exposure from any one catastrophe loss event in any individual zone at or below 50% of our shareholders' equity.

<i>North America</i>	<i>Europe</i>	<i>Rest of World</i>
<ul style="list-style-type: none">• U.S. Northeast• U.S. Southeast• U.S. Florida• U.S. Gulf• U.S. New Madrid• U.S. Midwest• U.S. California• U.S. Hawaii• Canada	<ul style="list-style-type: none">• Europe	<ul style="list-style-type: none">• Australia• New Zealand• Japan• South America

Examples of individual zones include: U.S. Florida Windstorm (1st event), U.S. Florida Windstorm (2nd event), European Windstorm (1st event), European Windstorm (2nd event), U.S. California Earthquake (1st event), Japan Earthquake (1st event) and U.S. Midwest Aggregate. The Company, to the best of its knowledge, did not enter into any contacts with any governments or entities targeted by U.S. sanctions including those applicable to Sudan, Syria and Iran.

Other Limitations

We sought to maintain a projected net impact from any one catastrophe loss event at the 1 in 100 year return period for any one zone at or below 35% of our shareholders' equity. A 100 year return period can also be referred to as the 1.0% occurrence exceedance probability, meaning there is an estimated 1.0% chance in any given year that this level will be exceeded. We sought to maintain a projected net impact from any one earthquake loss event at the 1 in 250 year return period for any zone at or below 35% of our shareholders' equity. A 250 year return period can also be referred to as the 0.4% occurrence exceedance

probability, meaning there is an estimated 0.4% chance in any given year that this level will be exceeded. For these risks, the projected net impact was determined by the Manager using various systems, including Sampo International's proprietary systems and data.

We have also purchased retrocessional or industry loss warranty protection to mitigate the impact of large catastrophe events on our portfolio or to optimize the expected return of our portfolio.

Our Reinsurance Risk Selection and Underwriting Process

We employed a granular approach to risk selection and portfolio construction. We targeted reinsurance counterparties through which we were able to access the full spectrum of information associated with each reinsurance loss exposure. In a majority of the reinsurance transactions that we entered into, we were a "quoting reinsurer," meaning that we provided an initial quote to the broker rather than responding to quotes provided by the broker. By contrast, we believe some other reinsurance providers act as price followers and only access exposure at an industry loss level and, accordingly, cannot evaluate specific information related to individual elements of underlying risk or control the underwriting process. We believe this holistic approach enabled us to build and maintain a portfolio of reinsurance contracts with attractive risk-adjusted returns.

The Manager, on our behalf and subject to the oversight of the Board, employed selective underwriting criteria in the contracts it chose to underwrite and spent a significant amount of time with our cedants and brokers to understand the risks and appropriately structure the contracts. As part of our pricing and underwriting process, the Manager assessed, among other factors:

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

Our Structure

We conducted our business through our wholly-owned subsidiaries Blue Capital Re and Blue Capital Re ILS.

We conducted our reinsurance business through Blue Capital Re. As a result of the approvals received from the BMA and the terms of our approved business plan, Blue Capital Re was only permitted to enter into reinsurance contracts that were fully-collateralized at 100% of the aggregate limit at the inception of each reinsurance contract. Blue Capital Re has therefore been subject to less stringent regulatory oversight than Class 4 insurers and has been subject to more modest capital and surplus requirements.

We conducted certain hedging and other investment activities through Blue Capital Re ILS, including investing in insurance-linked securities.

The Manager

We rely on the Manager, a wholly-owned subsidiary of Sampo International, for services that are essential to the operation of our business. The Manager manages our assets and makes all of our underwriting and investment decisions, subject to our underwriting guidelines and the oversight of the Board.

The Manager also manages other accounts with areas of focus that overlap with our strategy, and expects to continue to do so in the future. The Manager is not restricted in any way from sponsoring or accepting business or capital from new clients, insurance or reinsurance companies, funds or other accounts, including businesses that are similar to, or that overlap with, our business. Therefore, the Manager's time and attention may be divided between us and other businesses.

Investment Management Agreement

The Company entered into an investment management agreement with the Manager (the "Investment Management Agreement"). Pursuant to the terms of the Investment Management Agreement, the Manager has full discretionary authority, including the delegation of the provision of its services, to manage our assets, subject to our underwriting guidelines, the terms of the Investment Management Agreement and the oversight of the Board.

Underwriting and Insurance Management Agreement

The Company, Blue Capital Re and the Manager have entered into an underwriting and insurance management agreement (the "Underwriting and Insurance Management Agreement"). Pursuant to the Underwriting and Insurance Management Agreement, the Manager provides underwriting, risk management, claims management, ceded retrocession agreements management and actuarial and reinsurance accounting services to Blue Capital Re. The Manager has full discretionary authority to manage the underwriting decisions of Blue Capital Re, subject to our underwriting guidelines, the terms of the Underwriting and Insurance Management Agreement and the oversight of the Board and of the board of directors of Blue Capital Re.

Administrative Services Agreement

The Company entered into an administrative services agreement (the "Administrative Services Agreement") with the Manager. Pursuant to the terms of the Administrative Services Agreement, the Manager provides us with support services, including the services of our CFO, as well as finance and accounting, internal audit, claims management, policy wording, modeling software licenses, office space, information technology, human resources and administrative support. The Manager has the right to sub-contract the provision of these services (other than the services of our CFO) to a third-party.

Neither our CEO nor CFO receives any compensation directly from us for their services. Rather, the services provided by our CEO are deemed to be encompassed within the management fee we are charged by the Manager under the Investment Management Agreement and the services provided by our CFO are directly charged to us by the Manager under the Administrative Services Agreement.

The following table summarizes the fees payable to the Manager pursuant to the Investment Management Agreement, the Underwriting and Insurance Management Agreement and the Administrative Services Agreement and certain other terms of these agreements:

Summary Description

Management Fee	The Manager is entitled to a management fee (the "Management Fee") of 1.5% of our average total shareholders' equity per annum, calculated and payable in arrears in cash each quarter (or part thereof) that the Investment Management Agreement is in effect. For purposes of calculating the Management Fee, our total shareholders' equity means: (1) the net proceeds from all issuances of our equity securities since inception (allocated on a pro rata daily basis for such issuances during the quarter of any such issuance), plus (2) our retained earnings as of the end of the most recently completed quarter (without taking into account any non-cash compensation expense incurred in current or prior periods), minus (3) any amount that we may have paid to repurchase our Common Shares on a cumulative basis since inception. It also excludes (x) any unrealized gains and losses and other non-cash items that have impacted shareholders' equity as reported in our financial statements prepared in accordance with GAAP, other than unrealized gains and losses and other non-cash items relating to insurance-linked securities, and (y) one-time events pursuant to changes in GAAP after discussions between the Manager and our independent directors and approval by both a majority of our independent directors and the Manager for all such adjustments. As a result, our shareholders' equity, for purposes of calculating the Management Fee, could be greater or less than the amount of shareholders' equity shown on our financial statements.
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Performance Fee	The Manager is entitled to a performance fee (the "Performance Fee") calculated and payable in arrears in cash each quarter (or part thereof) that the Underwriting and Insurance Management Agreement is in effect in an amount, not less than zero, equal to the product of (1) 20% and (2) the difference between (A) our pre-tax, pre-Performance Fee Distributable Income for the then current quarter and (B) a hurdle amount calculated as the product of (i) the weighted average of the issue price per Common Share pursuant to each of our public or private offerings of Common Shares since our inception multiplied by the weighted average number of all Common Shares outstanding (including any restricted share units, any restricted Common Shares and other Common Shares underlying awards granted under our equity incentive plans), as further reduced by the amount, if any, by which our inception-to-date dividends to shareholders exceeds our inception-to-date GAAP net income, and (ii) 2% (equivalent to an 8% annualized hurdle rate); provided, however, that the foregoing Performance Fee is subject to a rolling three-year high water mark.
Term	We generally may not terminate the Investment Management Agreement, the Underwriting and Insurance Management Agreement or the Administrative Services Agreement until November 5, 2021, whether or not the Manager's performance results are satisfactory. Each of these agreements renews automatically on November 5, 2021, and every three years thereafter, unless terminated in accordance with its terms. During the term of these agreements, we may not enter into any other investment management, underwriting and insurance management or services agreement.
Termination Fee	Upon any termination or non-renewal of either of the Investment Management Agreement or the Underwriting and Insurance Management Agreement (other than for a material breach by, or the insolvency of, the Manager), we will pay a one-time termination fee to the Manager equal to 5% of our GAAP shareholders' equity, calculated as of the most recently completed quarter prior to the date of termination.
Expense Reimbursement	Under the terms of the Investment Management Agreement and the Underwriting and Insurance Management Agreement, we reimburse the Manager for various fees, expenses and other costs in connection with the services provided under the terms of these agreements. The only fees payable under the terms of the Administrative Services Agreement are to reimburse the Manager for various fees, expenses and other costs in connection with the services provided under the terms of that agreement, including the services of our CFO, modeling software licenses and finance, legal and administrative support.

Capital Management Policy

The Company intends to continue to make special distributions to shareholders from time to time pursuant to our plans to effect an orderly run-off of the Company.

The declaration of special distributions will be subject to the discretion of the Board and to the consideration of various additional risks and uncertainties, including those discussed under the headings "*Risk Factors*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and elsewhere in this Annual Report on Form 10-K. Any future determination to make distributions will remain at the discretion of the Board and will be dependent upon many factors, including: (i) our financial condition, liquidity, results of operations (including our ability to generate cash flow in excess of our expenses) and capital requirements; (ii) general business conditions, (iii) legal, tax and regulatory limitations; (iv) contractual prohibitions and other restrictions; (v) regulatory approval of Blue Capital Re's dividend payments to the Company; and (vi) any other factors that the Board deems relevant. Subject to the "passive foreign investment company" ("PFIC") rules discussed below for U.S. federal income tax purposes, it is expected that U.S. Holders (as defined below) of our common shares generally will recognize gain or loss equal to the difference between (i) the sum of the amount of cash and the fair market value (determined at the time of the distribution) of property, if any, distributed to them and (ii) their adjusted tax basis in our common shares. Such gain or loss generally will be computed on a per-share basis. Accordingly, if a U.S. Holder acquired our common shares at different prices or at different times, the amount that such shareholder receives on each liquidating distribution will be allocated to each different block of our common shares based on the number of shares in each block. Within each block, a cost recovery approach will generally be applied, and a U.S. Holder's full tax basis of a block will generally be recovered before any gain is recognized with respect to it. When a distribution is one in a series of distributions in complete liquidation, as is expected, these basis recovery rules will apply to the aggregate basis of all of the U.S. Holder's common shares, and any loss generally will be recognized by a U.S. Holder only in the tax year in which the shareholder receives our final liquidating distribution. For these purposes, a "U.S. Holder" is any beneficial owner of our common shares that, for U.S. federal income tax purposes, is (i) a citizen or individual resident of the United States; (ii) a corporation, or other

entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if such trust has validly elected to be treated as a United States person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more United States persons have the authority to control all of the substantial decisions of such trust. Holders of our common shares should consult their tax advisors regarding the tax consequences to them of the receipt of any distributions from us.

The Company has no substantial operations of its own and relies primarily on cash dividends or distributions from its subsidiaries to pay its operating expenses and special distributions to its shareholders. Furthermore, Blue Capital Re, the Company's wholly-owned reinsurance subsidiary, is regulated as a Class 3A insurer under the Insurance Act by the BMA, and its ability to pay dividends or distributions to the Company is limited under Bermuda law and regulations. In light of the Company's decision to enter run-off and return capital to its shareholders, on October 25, 2019, the BMA amended the license of Blue Capital Re to require Blue Capital Re to obtain the written approval of the BMA prior to the declaration and/or payment of any dividends and/or the making of any capital contributions to Blue Capital Re's parent, shareholders or affiliates. Accordingly, Blue Capital Re will be obligated to seek the BMA's advance approval in order to provide the Company with the funds required for each distribution to the Company's shareholders in connection with the run off of the Company. To the extent Blue Capital Re is unable to obtain the BMA's approval, distributions to the Company's shareholders may be prevented or delayed until such time as Blue Capital Re receives the BMA's approval. See *"Regulation and Capital Requirements"* for more information.

In addition, under the Bermuda Companies Act 1981, as amended (the "Companies Act"), none of the Company, Blue Capital Re or Blue Capital Re ILS is permitted to declare or pay a dividend, or make a distribution out of contributed surplus, if it is, or would after the payment be, unable to pay its liabilities as they become due, or if the realizable value of its assets would be less than its liabilities. See *"Regulation and Capital Requirements"* for more information.

GROSS PREMIUMS WRITTEN

During the seven month period ended July 31, 2019 and the year ended December 31, 2018, we wrote \$11.1 million and \$33.2 million of gross reinsurance premiums, respectively.

Upon adoption of the liquidation basis of accounting on July 31, 2019 the Company estimated future gross written and earned premiums associated with its final in-force retrocessional treaty and subsequently adjusted the earnings to actual reported premiums as of December 31, 2019. As a result an additional \$7.0 million in earned premiums were incorporated in the liquidation valuation of the Company subsequent to July 31, 2019. As of December 31, 2019 all treaties have expired.

Gross Premiums Written By Broker

Prior to ceasing active operations, we marketed our reinsurance policies worldwide primarily through insurance and reinsurance brokers. The majority of our gross premiums written were sourced by the Manager through a limited number of brokers. The broker was not a party to the reinsurance contract.

We and the Manager sought to build long-term relationships with brokers by providing: (i) prompt and responsive service on underwriting submissions; (ii) innovative and customized reinsurance solutions to their clients; and (iii) timely payment of claims. Brokers received compensation, typically in the form of a commission, based on negotiated percentages of the premium they produced and the performance of other necessary services. Brokerage costs constituted a significant portion of our reinsurance acquisition costs.

The following table sets forth a breakdown of our gross reinsurance premiums written by broker for the seven months ended July 31, 2019 and the year ended December 31, 2018:

(\$ in millions)	Seven Months Ended		Year Ended	
	July 31, 2019		December 31, 2018	
Aon Benfield	\$ 4.4	40%	\$ 6.9	21%
Marsh & McLennan Companies, Inc.	3.3	30%	11.6	35%
Willis Towers Watson	1.8	16%	8.7	26%
All other brokers	1.6	14%	6.0	18%
Gross premiums written through brokers	11.1	100%	33.2	100%
Gross premiums not written through brokers	—	—%	—	—%
Total gross premiums written	\$ 11.1	100%	\$ 33.2	100%

The majority of our reinsurance premiums written included in the table above were derived from a quota share retrocessional reinsurance agreement with Sompo International pursuant to the BW Retrocessional Agreement. As illustrated, the majority of our reinsurance premiums written were sourced through a limited number of brokers, with Aon Benfield, Marsh & McLennan Companies, Inc. and Willis Towers Watson providing a total of 86% of our gross reinsurance premiums written for the seven months ended July 31, 2019. We were therefore highly dependent on these brokers and a loss of all or a substantial portion of the business provided by one or more of these brokers either to Sompo International or directly to us could have had a material adverse effect on our financial condition and results of operations. See "Risk Factors" contained in Item 1A herein.

Gross Premiums Written By Geographic Area of Risks Insured

We sought to diversify our exposure across geographic zones around the world in order to obtain a prudent spread of risk. The spread of these exposures is also a function of market conditions and opportunities.

The following table sets forth a breakdown of gross reinsurance premiums written by geographic area of risks insured for the seven month period ended July 31, 2019 and year ended December 31, 2018:

(\$ in millions)	Seven Months Ended		Year Ended	
	July 31, 2019		December 31, 2018	
Worldwide ⁽¹⁾	\$ 0.8	7%	\$ 6.7	20%
USA:				
Nationwide	4.7	42%	13.5	40%
Florida	0.1	1%	4.2	13%
Gulf region	—	—%	0.5	2%
California	0.1	1%	0.3	1%
Midwest region and other	—	—%	0.5	2%
Northeast	—	—%	0.1	—%
Asia	1.0	9%	1.6	5%
Australia	0.9	8%	1.1	3%
Canada	0.2	2%	0.4	1%
Europe	3.3	30%	3.7	11%
Worldwide, excluding U.S. ⁽²⁾	—	—%	0.6	2%
Total gross premiums written	\$ 11.1	100%	\$ 33.2	100%

(1) "Worldwide" comprises reinsurance contracts that cover risks in more than one geographic area and do not specifically exclude the U.S.

(2) "Worldwide, excluding U.S." comprises reinsurance contracts that cover risks in more than one geographic area but specifically exclude the U.S.

CLAIMS MANAGEMENT

Claims are managed by the Manager pursuant to the Underwriting and Insurance Management Agreement and the Administrative Services Agreement. The Manager has access to Sompo International's experienced, technical claims teams working closely with each of our operating subsidiaries. The Manager reviews and responds to initial loss reports, administers claims databases, identifies and handles coverage issues, determines whether further investigation is required and where appropriate, retains outside claims counsel, establishes case reserves and approves claims for payment. In addition, the Manager may conduct audits of our significant clients throughout the year, evaluating claims handling abilities, reserve philosophies, loss notification processes and the overall quality of our clients' performance.

Upon receipt, claims notices are recorded by the Manager within our underwriting, financial and claims systems. When we are notified of insured losses or discover potential losses as part of our claims audits, the Manager records a case reserve as appropriate for the estimated amount of the exposure at that time. The estimate reflects the judgment of the Manager based on general reserving practices, the experience and knowledge of the Manager regarding the nature of the specific claim and, where appropriate, advice of outside counsel. Reserves are also established to provide for the estimated expense of settling claims, including legal and other fees and the general expenses of administering the claims adjustment process.

RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

We are required by applicable laws and regulations and GAAP to establish reserves for losses and LAE that arise from our business. These reserves are balance sheet liabilities representing estimates of future amounts required to pay losses and LAE for insured or reinsured claims that have been incurred at or before the balance sheet date, whether already known to us or not yet reported. It is our policy to establish these losses and LAE reserves after evaluating all information known to us as of the valuation date. Actuarial services are provided to us by the Manager pursuant to the Underwriting and Insurance Management Agreement.

The Manager uses statistical and actuarial methods to make a reasonable estimate of ultimate expected losses and LAE. The period of time from the reporting of a loss to us and the settlement of our liability may be several years. During this period, additional facts and trends may be revealed. As these factors become apparent, estimated reserves will be adjusted, sometimes requiring an increase or decrease in our overall reserves, and at other times requiring a reallocation of incurred but not reported reserves to specific case reserves.

Reserves for losses and LAE are based in part upon the estimation of losses resulting from catastrophic events. Estimation of losses from catastrophic events is inherently difficult because of the infrequency and severity of large catastrophes. Therefore, we utilize commercially available models, historical reinsurance industry property catastrophe claims experience and other data and estimates provided by our clients to supplement our own historical claims experience for purposes of evaluating future trends and providing an estimate of ultimate claims costs on large catastrophes.

To assist us in establishing appropriate reserves for losses and LAE, we analyze a significant amount of insurance industry information with respect to the pricing environment, loss trends, and loss settlement patterns. In combination with our individual pricing analyses, this industry information is used to guide our loss and LAE estimates. These estimates are reviewed regularly, and adjustments, if any, are recorded in earnings in the periods in which they are determined. While management believes it has made a reasonable estimate of ultimate losses, there can be no assurance that our future losses and LAE will not exceed our current total reserves. For a description of the Company's current reserves, please refer to Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Review of Orderly Run-Off and Loss and LAE*" and Note 3, "*Loss and LAE Reserve Movements*" in the Notes to the Consolidated Financial Statements of the Company.

CONFLICTS OF INTEREST

There may be conflicts of interest that arise out of our relationship with Sompo International and the Manager. Our Chairman and CEO and our CFO are also employees of Sompo International and the Manager is wholly-owned by Sompo International. As a result, our officers, two of our directors and the Manager may have conflicts between their duties to us and their duties to, and interests in, Sompo International or other parties.

As part of our business model and strategy, we relied on affiliates of Sompo International for access to certain segments of the reinsurance market. In particular, pursuant to the BW Retrocessional Agreement, we have participated in: (i) retrocessional, quota share or other agreements in which Sompo International or its affiliates have an interest; and (ii) fronting arrangements with Sompo International. Although these transactions may have presented conflicts of interest, we nonetheless consummated these transactions.

Our business overlaps with portions of Sompo International's business. The Manager, in addition to managing some of Sompo International's accounts, manages other accounts that may compete with us, including other accounts affiliated with Sompo International. The Manager made available to us opportunities to enter into reinsurance contracts and insurance-linked securities and made investments that it determined were appropriate for us in accordance with its allocation policies and our underwriting guidelines. The Manager was not required to allocate any or all such opportunities to us. We understand that the Manager primarily allocated any overlapping opportunities on a proportional basis among the various accounts that they manage.

Service Agreements with Sompo International

We rely on the Manager for services that are essential to the operation of our business. The Manager is a wholly-owned subsidiary of Sompo International. As of December 31, 2019 Sompo International owned 33.2% of our outstanding Common Shares and had two representatives on our Board which consists of five directors.

The Manager manages our assets and has made all of our underwriting and investment decisions, subject to our underwriting guidelines and the oversight of the Board.

The Manager is not restricted in any way from sponsoring or accepting business or capital from new clients, insurance companies, funds or other accounts, including businesses that are similar to, or that overlap with, our business. Therefore, the Manager's time and attention may be divided between us and other businesses.

See "*The Manager*" for detailed information concerning each of our service agreements with Somp International.

REGULATION AND CAPITAL REQUIREMENTS

General

The business of insurance and reinsurance is regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. Reinsurers are generally subject to less direct regulation than primary insurers. Blue Capital Re is regulated by the BMA.

Bermuda Regulation

The Insurance Act provides that no person may carry on an insurance business in or from within Bermuda unless registered as an insurer under the Insurance Act by the BMA. In deciding whether to grant registration, the BMA has broad discretion to act as it thinks fit in the public interest. The BMA is required by the Insurance Act to determine whether the applicant is a fit and proper body to be engaged in the insurance business and, in particular, whether it has, or has available to it, adequate knowledge and expertise. The registration of an applicant as an insurer is subject to the insurer complying with the terms of its registration and such other conditions as the BMA may impose at any time. The Insurance Act also grants to the BMA powers to supervise, investigate and intervene in the affairs of insurance companies.

The BMA has enacted various legislative and regulatory amendments to the Insurance Act to aid in Bermuda's achievement of regulatory equivalence with that of the European Commission's Solvency II framework in relation to commercial insurance entities. Bermuda was awarded full equivalence for commercial insurers under Europe's Solvency II regime applicable to insurance companies, which regime came into effect on January 1, 2016. The Insurance Act now : (i) requires certain classes of insurers (including the Company) to maintain their head offices in Bermuda; (ii) requires insurers to notify the BMA, in addition to any increase, of any reduction or disposal of shares taking a shareholder controller below 10%, 20%, 33% or 50%; (iii) permits certain classes of insurers to submit condensed audited GAAP financial statements; and (iv) establishes the minimum criteria of matters of material significance whereby the approved auditor is required to provide written notice to the BMA of those matters that would impact the BMA's discharge of its functions under the Insurance Act. The Insurance Returns and Solvency Regulations 1980 also now include the items and the content of the documents to be submitted as part of the required statutory financial returns for insurers carrying on special purpose business. The Insurance Act requires insurers and insurance groups to meet regulatory capital and reporting requirements on a statutory economic capital and surplus basis. All insurers are also required to implement corporate governance policies and processes as the BMA considers appropriate given the nature, size, complexity and risk profile of the insurer and all insurers, on an annual basis, are now required to deliver a declaration to the BMA confirming whether or not they meet the minimum criteria for registration. All Class 4, Class 3B and Class 3A insurers are required to produce and publish a Financial Condition Report on their website, or provide a copy to the public on request if they do not have a website, as part of its annual Bermuda Capital and Solvency Requirement. The Financial Condition Report provides particulars on the business performance, governance structure, risk profile, solvency valuation, and capital management of the insurer.

In January 2018, the BMA implemented a requirement for an alternative capital schedule to be filed for December 31, 2017 year-end filings and onwards. The Company is required to complete and file with the BMA this schedule with respect to any of its alternative capital structures. The BMA has confirmed that alternative capital is where insurers conduct business that is financed by a mechanism other than shareholders' capital of the (re)insurance company. This may take various forms such as catastrophe (cat) bonds, industry loss warranties, sidecars, collateralized reinsurers, longevity and mortality bond/swaps, hybrid securities such as preference shares, swaps, and contingent capital such as letters of credit, among others. The filings are confidential, but the BMA may produce valuable aggregate statistics for publication from the information provided in the filings.

The Bermuda Insurance Code of Conduct (the "Bermuda Insurance Code"), which is a codification of best practices for insurers provided by the BMA, was also amended in 2015 and all insurers had to be in compliance by December 31, 2015. Substantive revisions to the Bermuda Insurance Code included a new requirement for the board of an insurer to ensure that its insurance manager is both fit and able to carry out its duties to ensure that the insurer operates in a prudent manner and a

clarification that only limited purpose insurers will be allowed to outsource the CEO and senior executive roles to an insurance manager.

Insurance Manager Code of Conduct

In 2016, the BMA implemented the Insurance Manager Code of Conduct, which establishes duties, requirements and compliance standards to be adhered to by all insurance managers registered under the Bermuda Insurance Act, including the procedure and sound principles to be observed by insurance managers. Insurance managers were required to implement the Insurance Manager Code of Conduct into their operations by December 31, 2016. Failure to comply with the requirements of the Insurance Manager Code of Conduct will be taken into account by the BMA in assessing whether the insurance manager has satisfied its requirement under the minimum criteria for registration to conduct its business in a prudent manner.

However, the BMA takes a proportionate approach to compliance, taking into consideration the nature, scale and complexity of an insurance managers' business. The Manager is subject to the Insurance Manager Code of Conduct and is required to file annually prior to June 30 an annual return including management financial statements for the previous financial year and a business plan for the upcoming financial year, and a statutory declaration confirming its compliance with the Insurance Manager Code of Conduct.

The BMA utilizes a risk-based approach when it comes to licensing and supervising insurance and reinsurance companies. As part of the BMA's risk-based system, an assessment of the inherent risks within each particular class of insurer or reinsurer is used to determine the limitations and specific requirements that may be imposed. Thereafter the BMA keeps its analysis of relative risk within individual institutions under review on an ongoing basis, including through the scrutiny of audited financial statements, and, as appropriate, meeting with senior management during onsite visits.

Regulation of Brokers and Agents

In addition to being registered as an insurance manager under the Insurance Act, the Manager is registered as an agent under the Insurance Act. Insurance brokers and insurance agents have historically been lightly regulated in Bermuda. However, in line with international standards in this space, the BMA has implemented more rigorous regulation. The Insurance Act has been amended to extend certain provisions to regulated insurance brokers and agents. These changes were effective as of December 31, 2018 and include that: (i) the BMA may make rules prescribing prudential standards in relation to insurance brokers and agents (which will include an annual report) and apply penalties for failure to file statutory returns; (ii) brokers and agents are required to maintain lists of insurers for which they act, (iii) brokers and agents are required to notify the BMA within 14 days of any change of shareholder controller or officer; and (iv) brokers and agents are required to have sufficient indemnity insurance cover. The BMA has provided a template annual reporting form and a draft Code of Conduct for insurance brokers and agents which establishes the duties, requirements and standards to be complied with by all insurance brokers and agents registered under Section 10 of the Insurance Act, including the procedures and sound principles to be observed by such persons.

The BMA has also mandated that insurance brokers and agents are annually required to file: (i) a return accompanied by a copy of the insurance broker or agent's management accounts for the financial year and business plan for the next financial year; and (ii) a declaration signed by two directors (one of whom may be the chief executive officer) of the insurance broker or agent confirming that to the best of their knowledge and belief the information in the annual return is fair and accurate. Insurance brokers and agents, including the Manager, were required to comply with the Code of Conduct by June 30, 2019.

Regulatory Framework

The Insurance Act imposes solvency and liquidity standards on Bermuda insurance companies, as well as auditing and reporting requirements. Certain significant aspects of the Bermuda insurance regulatory framework are set forth below.

Classification of Insurers. The Insurance Act distinguishes between insurers (which term includes reinsurers) carrying on long-term business, general business (being everything except life, annuity and certain types of accident and health insurance) and special purpose business. There are six main general business classifications for insurers ranging from Class 1 (pure captives) to Class 4 (very large commercial underwriters), with Class 4 insurers being subject to the strictest regulation. There is only one classification of special purpose insurer, although special purpose insurers have been categorized effective as of December 31, 2018 into unrestricted special business insurers and restricted special purpose insurers. Insurers carrying on "restricted special purpose" business may only conduct special purpose business with specific insureds approved by the BMA. Insurers carrying on "unrestricted special purpose" can conduct special purpose business with any insureds. The Insurance Act also provides for other additional categories of insurers with limited licenses to encourage innovation in the insurance industry.

These include Class IGB insurers, meaning insurers carrying on general business in an innovative or experimental manner, and Class ILT insurers, meaning insurers carrying on long-term business in an innovative or experimental manner.

An entity such as Blue Capital Re is registrable as a Class 3A insurer when: (i) it intends to carry on general insurance business in circumstances where (a) 50% or more of the net premiums written or (b) 50% or more of the loss and loss expense provisions, represent unrelated business; and (ii) its total net premiums written from unrelated business are less than \$50.0 million. Class 3A insurers are required to maintain fully paid-up share capital of \$120,000.

Following the announcement of the Company's plan to pursue an orderly run-off, on October 25, 2019, the BMA amended Blue Capital Re's license to restrict it from entering into any new contracts of insurance or reinsurance without obtaining the prior written approval of the BMA.

Principal Representative, Head and Principal Office. Every registered insurer or reinsurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda, subject to certain prescribed requirements under the Insurance Act. Further, any registered insurer that is a Class 3A insurer or above is required to maintain a head office in Bermuda and direct and manage its insurance business from Bermuda. The 2015 amendments to the Insurance Act provided that in considering whether an insurer satisfies the requirements of having its head office in Bermuda, the BMA may consider (i) where the underwriting, risk management and operational decision making occurs; (ii) whether the presence of senior executives who are responsible for, and involved in, the decision making are located in Bermuda; and (iii) where meetings of the board of directors occur. The BMA will also consider (i) the location where management meets to effect policy decisions; (ii) the residence of the officers, insurance managers or employees; and (iii) the residence of one or more directors in Bermuda. Additionally, the BMA may look to the location of the insurance manager for determining whether a head office is in Bermuda.

For the purpose of the Insurance Act, Blue Capital Re's principal office is the Company's executive offices at Waterloo House, 100 Pitts Bay Road, Pembroke HM 08, Bermuda. The Manager, a wholly-owned subsidiary of Sompo International has been appointed and approved as the principal representative for Blue Capital Re. The principal representative has statutory reporting duties under the Bermuda Insurance Act for certain reportable events, such as threatened insolvency or non-compliance with the Insurance Act or with a condition or restriction imposed on an insurer.

Where there has been a significant loss that is reasonably likely to cause a Class 3A insurer to fail to comply with its enhanced capital requirement (as described in more detail below), the principal representative must furnish the BMA with a capital and solvency return reflecting an enhanced capital requirement prepared using post-loss data. The principal representative must provide this within forty-five days of notifying the BMA of the loss.

In addition, where a notification has been made to the BMA regarding a material change to an insurer's business or structure (as described in more detail below), the principal representative has thirty days from the date of such notification to provide to the BMA unaudited interim statutory financial statements in relation to such period if so requested by the BMA, together with a general business solvency certificate in respect of those statements.

Loss Reserve Specialist. Generally, a Class 3A insurer is required to submit annually an opinion of its approved loss reserve specialist with its financial statements and return in respect of its loss and LAE provisions. However, an insurer may file an application under the Insurance Act to waive the aforementioned requirements. In this instance, Blue Capital Re has obtained such a waiver from the BMA.

Cancellation of Insurer's Registration. The BMA may revoke or suspend Blue Capital Re's license in certain circumstances, including circumstances in which: (i) false, misleading or inaccurate information has been supplied to the BMA by Blue Capital Re or on its behalf; (ii) we have ceased to carry on business; (iii) Blue Capital Re has persistently failed to pay fees due under the Insurance Act; (iv) Blue Capital Re has failed to comply with a condition attached to its registration or with an applicable requirement under the Insurance Act; (v) we are convicted of an offense against a provision of the Insurance Act; (vi) Blue Capital Re has, in the opinion of the BMA, not been carrying on business in accordance with sound insurance principles; or (vii) any of the minimum criteria for registration under the Insurance Act is not or will not have been fulfilled. If the BMA were to suspend or revoke Blue Capital Re's license, we could lose our exemption under the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act").

Annual Statutory Financial Statements and Return; Independent Approved Auditor. The Insurance Act generally requires all insurers to: (i) prepare annual statutory financial statements and returns; (ii) submit a declaration certifying compliance with the minimum criteria applicable to it including the minimum margin of solvency, enhanced capital requirements and any restrictions or conditions imposed on its license; and (iii) appoint an independent auditor who will annually audit and report on such financial statements and returns.

The independent auditor of the insurer must be approved by the BMA and may be the same person or firm that audits the insurer's financial statements and reports for presentation to its shareholders. If the insurer fails to appoint an approved auditor or at any time fails to fill a vacancy for such auditor, the BMA may appoint an approved auditor for the insurer and shall fix the remuneration to be paid to the approved auditor. The approved auditor is required to issue written notice to the BMA of matters of material significance for the discharge of the BMA's functions as established under the Insurance Act.

An insurer may file an application under the Insurance Act to have the requirement to file audited statutory financial statements annually with the BMA waived. In this instance, Blue Capital Re has obtained such a waiver from the BMA. However, Blue Capital Re is required to prepare and file annual condensed consolidated audited GAAP financial statements with the BMA.

Blue Capital Re's independent auditor has been approved by the BMA.

Minimum Liquidity Ratio. The Insurance Act provides a minimum liquidity ratio and requires Blue Capital Re to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include, but are not limited to, cash and cash equivalents, investments, investment income due and accrued, accounts and premiums receivable, reinsurance balances receivable and funds held by ceding companies. Relevant liabilities include, but are not limited to, loss and LAE reserves, other liabilities, letters of credit and guarantees.

Minimum Solvency Margin. The Insurance Act provides that the value of the assets of an insurer must exceed the value of its liabilities by an amount greater than its prescribed minimum solvency margin.

The minimum solvency margin that must be maintained by a Class 3A insurer is the greatest of: (i) \$1.0 million; (ii) 20% of net premiums written where such net premiums do not exceed \$6.0 million and \$1.2 million plus 15% of net premiums written where such net premiums exceed \$6.0 million; (iii) 15% of net undiscounted aggregate loss and loss expense provisions and other insurance reserves; and (iv) 25% of that insurer's enhanced capital requirement ("ECR").

An insurer may file an application under the Insurance Act to waive the aforementioned requirements. In this instance, Blue Capital Re has obtained such a waiver from the BMA so that its minimum solvency margin shall remain at \$1.0 million at all times, provided that: (i) Blue Capital Re only enters into contracts of reinsurance that are fully-collateralized; and (ii) each transaction represents no material deviation from the original business plan filed with BMA at the time of Blue Capital Re's registration.

ECR and Bermuda Solvency Capital Requirements ("BSCR"). Class 3A insurers are required to maintain available capital and surplus at a level equal to or in excess of the applicable ECR, which is established by reference to either the BSCR - Small and Medium-Sized Entities model or an approved internal capital model. Furthermore, to enable the BMA to better assess the quality of the insurer's capital resources, a Class 3A insurer is required to disclose the makeup of its capital in accordance with its 3-tiered capital system.

An insurer may file an application under the Insurance Act to have the aforementioned ECR requirements waived. In this instance, Blue Capital Re has obtained such a waiver from the BMA and instead is required to submit a modified version of the BSCR model without an ECR.

Restrictions on Dividends and Distributions. In addition to the requirements under the Companies Act (as discussed below), the Insurance Act limits the maximum amount of annual dividends and distributions that may be paid or distributed by a Class 3A insurer without prior regulatory approval. However, the Insurance Act general limitations no longer apply to Blue Capital Re following the Company's decision to enter run-off and return capital to its shareholders which prompted the BMA to amend the license of Blue Capital Re to require it to obtain the written approval of the BMA prior to the declaration and/or payment of any dividends and/or the making of any capital contributions to Blue Capital Re's parent, shareholders or affiliates.

The Companies Act also limits Blue Capital Re's ability to pay dividends and make distributions to its shareholders. Blue Capital Re is not permitted to declare or pay a dividend, or make a distribution out of its contributed surplus, if it is, or would after the payment be, unable to pay its liabilities as they become due or if the realizable value of its assets would be less than its liabilities.

Reduction of Capital. Registered insurers may not reduce their total statutory capital by 15% or more, as set out in its previous year's financial statements, unless they have received the prior approval of the BMA. Total statutory capital consists of paid in share capital, contributed surplus (sometimes called additional paid in capital) and any other fixed capital designated

by the BMA as statutory capital. In Blue Capital Re's case, the 15% limitation rule no longer applies following the amendment to Blue Capital Re's license requiring it to obtain the written approval of the BMA prior to the declaration of any return of capital to Blue Capital Re's parent, shareholders or affiliates.

Supervision, Investigation and Intervention. The BMA may appoint an inspector to investigate the affairs of an insurer or a designated insurer (as detailed in "Group Supervision" below) if the BMA believes that an investigation is required in the interest of the insurer's or insurance group's policyholders or potential policyholders. In order to verify or supplement information otherwise provided to it, the BMA may direct an insurer or designated insurer to produce documents or information relating to matters connected with the insurer's or insurance group's business. Further, the BMA has the power to appoint a professional person to prepare a report on any aspect of any matter about which the BMA has required or could require information.

If it appears to the BMA that: (i) there is a risk of the insurer or designated insurer becoming insolvent; (ii) there is significant risk that the insurer will be unable to meet its policyholder obligations; (iii) the insurer or designated insurer is in breach of the Insurance Act; (iv) any conditions imposed upon its registration, or the minimum criteria stipulated in the Insurance Act are not or have not been fulfilled in respect of a registered insurer; (v) a person has become a Controller (which for this purpose means a managing director, chief executive or other person in accordance with whose directions or instructions the directors of the insurer are accustomed to act, including any person who holds 10% or more of the shares carrying rights to vote at any general meeting, or is entitled to exercise 10% or more of the voting shares or voting power or is otherwise able to exercise a significant influence over the management of the insurer) without providing the BMA with the appropriate notice or in contravention of a notice of objection; (vi) the registered insurer is in breach of its enhanced capital requirement; or (vii) a designated insurer is in breach of any provision of the Insurance Act or the regulations or rules applicable to it, the BMA may issue such directions as appear desirable for safeguarding the interests of policyholders or potential policyholders of the insurer or the insurance group. The BMA may also direct the insurer or designated insurer: (i) not to effect further contracts of insurance business; (ii) not to vary any insurance contract when the direction is given if the effect would be to increase the insurer's liabilities; (iii) not to make any investments of a specified class; (iv) to realize any existing investments of a specified class; (v) to maintain in, or transfer to the custody of, a specified bank assets of the insurer that are specified in the direction; (vi) not to declare or pay any dividends or other distributions or to restrict the making of such payments; (vii) to limit its premium income; (viii) to remove a Controller or officer; or (ix) to file a petition for the winding-up of the insurer.

The BMA may also make rules prescribing prudential standards with which the insurer must comply. Blue Capital Re may make an application to be exempted from such rules.

Winding-up. The BMA may present a petition for the winding-up of an insurer on the grounds that: (i) the insurer is unable to pay its debts within the meaning of sections 161 and 162 of the Companies Act; (ii) the insurer has failed to satisfy an obligation to which it is or was subject by virtue of the Insurance Act; or (iii) the insurer has failed to satisfy the obligation imposed upon it by section 15 of the Insurance Act as to the preparation of accounts or to produce or file financial statements in accordance with section 17 of the Insurance Act, and that the BMA is unable to ascertain the insurer's financial position. In addition, if it appears to the BMA that it is expedient in the public interest that an insurer should be wound up, it may present a petition for it to be so wound up if a court thinks it just and equitable for it to be so wound up.

Disclosure of Information. In addition to powers under the Insurance Act to investigate the affairs of an insurer, the BMA may require certain information from an insurer (or certain other persons) to be produced to it. The BMA has also been given powers to assist foreign regulatory authorities with their investigations involving insurance and reinsurance companies in Bermuda, subject to certain restrictions. For example, the BMA must be satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities of the foreign regulatory authority. Further, the BMA must consider whether cooperation with the foreign regulatory authorities is in the public interest. The grounds for disclosure by the BMA to a foreign regulatory authority without consent of the insurer are limited and the Insurance Act provides sanctions for breach of the statutory duty of confidentiality.

Bermuda Insurance Code. The Bermuda Insurance Code contains the duties, requirements and compliance standards to be adhered to by all insurers. The Bermuda Insurance Code stipulates that insurers are to develop and apply policies and procedures capable of assessment by the BMA. The board of directors of Blue Capital Re has the responsibility to ensure that Blue Capital Re is compliant with the Bermuda Insurance Code and is required to file annually a statutory declaration confirming compliance with the Bermuda Insurance Code.

Insurance Manager Code of Conduct. The Insurance Manager Code of Conduct establishes duties, requirements and compliance standards to be adhered to by all insurance managers registered under the Bermuda Insurance Act, including the procedure and sound principles to be observed by insurance managers. The Manager is subject to the Insurance Manager Code

of Conduct and is required to file annually prior to June 30 an annual return, and a statutory declaration confirming its compliance with the Insurance Manager Code of Conduct.

Group Supervision. The BMA may, in respect of an insurance group, determine whether it is appropriate for it to act as its group supervisor. An "insurance group" is defined as a group of companies that conducts exclusively, or mainly, insurance business.

None of the Company, Blue Capital Re or Blue Capital Re ILS is currently subject to group supervision, but the BMA may exercise its authority to act as our group supervisor in the future if we were to form an overseas entity.

Notifications to the BMA

Notification of Material Changes. All registered insurers are required to give notice to the BMA of their intention to effect a material change within the meaning of the Insurance Act. For the purposes of the Insurance Act, the following changes are material: (i) the transfer or acquisition of insurance business that is part of a scheme falling under section 25 of the Insurance Act or section 99 of the Companies Act; (ii) the amalgamation with or acquisition of another firm; (iii) engaging in unrelated business that is retail business; (iv) the acquisition of a controlling interest in an undertaking that is engaged in non-insurance business which offers services and products to persons who are not affiliates of the insurer; (v) outsourcing all or substantially all of our actuarial, risk management or internal audit functions; (vi) outsourcing all or a material part of an insurer's underwriting activity; (vii) the transfer, other than by way of reinsurance, of all or substantially all of a line of business; (viii) the expansion into a material new line of business; (ix) the sale of an insurer; or (x) outsourcing of an officer role.

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

Before issuing a notice of objection, the BMA is required to serve upon the person concerned a preliminary written notice stating the BMA's intention to issue a formal notice of objection. Upon receipt of the preliminary written notice, the person served may, within 28 days, file written representations with the BMA which shall be taken into account by the BMA in making its final determination.

Change of Shareholder Controller, Controller or Officer. In the event that the share capital of an insurer (or its parent) is traded on any stock exchange recognized by the BMA, then any shareholder must notify the BMA within 45 days of becoming a 10%, 20%, 33% or 50% shareholder of such insurer. Additionally, an insurer is also required to submit in writing to the BMA within 45 days, notification of a Shareholder Controller's (as defined in the Insurance Act) disposal or acquisition of shares whereby their proportion of voting rights held would reach or fall below 10%, 20%, 33% or 50%. An insurer or reinsurer must also provide written notice to the BMA that a person has become, or ceased to be, a Controller (as defined in the Insurance Act) of that insurer or reinsurer.

Blue Capital Re is also required to notify the BMA in writing in the event any person has become or has ceased to be a Controller or an officer of it, an officer being a director, chief executive or senior executive performing duties of underwriting, actuarial, risk management, compliance, internal audit, finance or investment matters.

In addition, the Manager, as an insurance manager licensed under the Insurance Act, is required to give written notice to the BMA of the fact of any person having become or ceased to be a shareholder controller or officer of the Manager within 14 days of the insurance manager becoming aware of the relevant facts related to such change.

Failure to give any required notice is an offense under the Insurance Act.

Certain Other Bermuda Law Considerations. Although the Company is incorporated in Bermuda, it is designated as non-resident for Bermuda exchange control purposes by the BMA. Pursuant to its non-resident status, the Company may engage in transactions in currencies other than Bermuda dollars, and there are no restrictions on the Company's ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda.

Each of the Company, Blue Capital Re and Blue Capital Re ILS is incorporated in Bermuda as an "exempted company." Under Bermuda law, exempted companies are companies formed for the purpose of conducting business outside Bermuda from a principal place of business in Bermuda. As a result, they are exempt from Bermuda laws restricting the percentage of share capital that may be held by non-Bermudians, but they may not participate in certain business transactions, including: (i) the acquisition or holding of land in Bermuda (except that required for their business and held by way of lease or tenancy for a

term of not more than 50 years, or, with the consent of the Minister of Economic Development, that which is used to provide accommodations or recreational facilities for its officers and employees and is held by way of lease or tenancy for a term of not more than 21 years) without the express authorization of the Bermuda legislature; (ii) the taking of mortgages on land in Bermuda to secure an amount in excess of \$50,000 without the consent of the relevant Ministers; (iii) the acquisition of any bonds or debentures secured by any land in Bermuda, other than certain types of Bermuda government securities; or (iv) the carrying on of business of any kind in Bermuda, except in furtherance of their business carried on outside Bermuda or under license granted by the Minister of Economic Development.

Blue Capital Re is a licensed insurer in Bermuda, and so it may carry on activities from Bermuda that are related to and in support of its insurance business. Effective as of January 1, 2019, the Insurance Act was amended to prohibit the entry into non-insurance business by both commercial and non-commercial insurers. However, all insurers will continue to be able to engage in non-insurance business where such business is ancillary to the insurance business carried on by the insurer.

Exempted companies, such as the Company, Blue Capital Re and Blue Capital Re ILS, must comply with Bermuda resident representation provisions under the Companies Act. Securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 and the Exchange Control Act 1972 and related regulations of Bermuda which regulate the sale of securities in Bermuda. In addition, specific permission is required from the BMA, pursuant to the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of securities of Bermuda companies, other than in cases where the BMA has granted a general permission. The BMA, in its policy dated June 1, 2005, provides that where any equity securities of a Bermuda company, which would include the Company's Common Shares, are listed on an appointed stock exchange, general permission is given for the issue and subsequent transfer of any securities of the company from and to a non-resident, for as long as any equity securities of the company remain so listed.

Notwithstanding the above general permission, the Company has received permission from the BMA to issue, grant, create, sell and transfer freely any of our Common Shares, stock, bonds, notes (other than promissory notes), debentures, debenture stock, units under a unit trust scheme, shares in an oil royalty, options, coupons, rights and depository receipts to and among persons who are either resident or non-resident of Bermuda for exchange control purposes. The Company has applied for an additional permission to permit the free transferability of Common Shares once they are delisted from the New York Stock Exchange and the Bermuda Stock Exchange.

The Contracts (Rights of Third Parties) Act 2016 became operative in Bermuda on March 28, 2016 and permits third parties, who are expressly identified in a contract but not specifically party to such contract, to be entitled to enforce and benefit from the terms of the contract, subject to certain requirements. The Bermuda legislation closely resembles the existing UK rights of third parties legislation.

The Bribery Act 2016 (the "Bribery Act") became operative on September 1, 2017. The Bribery Act is largely based on the UK's Bribery Act 2010, and aims to provide a modern and comprehensive scheme of bribery offenses in order to allow investigators, prosecutors and the courts to tackle bribery effectively, whether committed in Bermuda or overseas. The Bribery Act applies to any Bermuda individuals, or incorporated companies or other corporate entities (including partnerships) conducting business, whether in or outside of Bermuda, and any non-Bermuda incorporated companies, corporate entities (including partnerships) or individuals conducting business in Bermuda. The Company and its Bermuda subsidiaries have reviewed the Bribery Act and have in place a comprehensive Anti-Bribery Policy.

The Companies and Limited Liability Company (Beneficial Ownership) Amendment Act 2017, Exchange Control Amendment Act 2018 and the Partnership, Exempted Partnerships and Limited Partnership (Beneficial Ownership) Amendment Act 2018 came into operation on March 23, 2018, and created a requirement for entities (that are not exempt) to maintain and file a register of beneficial ownership with the BMA. There was a six-month transition period for this legislation, which has been further extended, and entities were required to have a beneficial ownership register in place by February 28, 2019. The BMA has confirmed that regulated entities (e.g. insurers registered under the Insurance Act) and listed-entities and their subsidiaries are exempt and do not need to maintain a beneficial ownership register. Therefore, no further action is required by the Company or its Bermuda subsidiaries in respect of the beneficial ownership requirements.

The Economic Substance Act 2018 and the Economic Substance Regulations 2018 (the "ESA") came into effect on December 31, 2018, and apply to all Bermuda registered companies, limited liability companies and partnerships with separate legal personality engaged in relevant activities. Existing Bermuda entities had until June 30, 2019 to comply. The ESA provides that all registered entities (which includes Bermuda companies, limited liability companies and partnerships that have elected to have separate legal personality) engaged in relevant activities must maintain a substantial economic presence in Bermuda. A relevant activity is defined in the ESA as "banking, insurance, fund management, financing, leasing, headquarters, shipping, distribution and service centre, intellectual property and holding entities". For companies registered under the Insurance Act as commercial insurers which already have a substantive economic connection to Bermuda, the ESA will mean little change in

practice other than the filing of an annual economic substance declaration six months after their fiscal year end. With respect to holding companies, an entity engages in business as a holding company if it is a "pure equity holding entity". An entity is a "pure equity holding entity" if it is an entity which as its primary function acquires and holds shares or an equitable interest in other entities, performs no commercial activity and which: (a) holds the majority of the voting rights in another entity; (b) is a shareholder, member or partner in another entity and has the right to appoint or remove a majority of the board of directors, managers or equivalent of that other entity; or (c) is a shareholder, member or partner in another entity and controls alone, under an agreement with others, a majority of the voting rights in that other entity. The ESA specifies that holding entities only need to meet the minimum substance requirements, which means compliance with the Companies Act 1981, as amended, the filing of an annual economic substance declaration, and confirmation that such holding companies have "adequate employees for holding and managing equity participations and adequate premises in Bermuda". The term "adequate" is not defined in the ESA. However, it is defined in the Guidance Notes on the ESA issued by the Minister of Finance, which state that "adequacy" has its ordinary dictionary meaning, which means "enough or satisfactory for a particular purpose". What will be adequate for each registered entity to comply with the ESA will depend on the particular facts of the registered entity and relevant activity having regard to the nature, scale, and complexity of the registered entity and/or the relevant activity undertaken. The Company has confirmed in its annual filings that it is a holding company and, as it has a year-end of December 31, will need to file an economic substance declaration by June 30, 2020 confirming that it complies with the ESA.

EMPLOYEES

We do not have any employees. Our CEO and CFO are employees of Sompo International and they provide us with these services pursuant to the Administrative Services Agreement and Investment Management Agreement.

We do not have the staff or capability to manage our underwriting or investment practices within our organization. Instead, we have outsourced these functions to the Manager, subject to oversight by our CEO, our CFO and the Board. As a result, the performance of the Manager is critical to our business.

INTELLECTUAL PROPERTY

There are no aspects of our business that require a patent, trademark or copyright. We do not own any patent, trademark or copyright. Sompo International owns the registered Blue Capital® trademark and we have entered into a trademark license agreement with Sompo International providing for a royalty-free license of this trademark. Under the terms of the trademark license agreement, we generally must indemnify Sompo International and its affiliates, directors, officers, employees, agents, successors and permitted assigns for, from and against losses: (i) on account of any third-party claim or proceeding arising out of the performance of the trademark license agreement; or (ii) from any breach of, or failure to perform, any covenant or obligation of ours contained in the trademark license agreement.

IMPLICATIONS OF BEING A SMALLER REPORTING COMPANY

We qualify as a "smaller reporting company" as defined in Item 10(f) of Regulation S-K of the Securities Act of 1933. As a result, we are eligible to take advantage of scaled disclosure requirements and financial reporting requirements made available in Regulation S-K for smaller reporting companies and Article 8 of Regulation S-X. These scaled disclosure requirements include, but are not limited to:

- Selected financial data, under Regulation S-K, Item 301 is not required;
- No requirement to provide supplementary financial information, under Regulation S-K, Item 302;
- Financial statement schedules, under Regulation S-X, Article 12 are not required;
- Item 8. *Financial Statements and Supplementary Data* and Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* are only required to present two years rather than three years of financial results;
- No risk factors required to be disclosed in filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

We intend to take advantage of some, but not all, of the scaled disclosure requirements available to smaller reporting companies. Accordingly, the information contained herein may be different from the information you receive from other public companies in which you invest.

We will continue to qualify to be a smaller reporting company provided we meet the following criteria (i) Public float of less than \$250 million; or (ii) Less than \$100 million of annual revenues and no public float, or public float of less than \$700 million. In addition, we are deemed to be a "non-accelerated filer," effective as of the end of the 2019 fiscal year as defined under the Exchange Act having previously qualified as an "accelerated filer," in previous filings. As a result we are subject to the requirements that apply to non-accelerated filers, including the timing of the filing of periodic reports. Now that we are no longer an accelerated filer we are no longer subject to the requirement that accelerated filers provide the auditor's attestation of management's assessment of internal control over financial reporting required by Section 404(b) of the Sarbanes-Oxley Act of 2002.

AVAILABLE INFORMATION

We are subject to the informational reporting requirements of the Exchange Act. In accordance therewith, we file reports, proxy statements and other information with the U.S. Securities and Exchange Commission (the "SEC"). These documents are electronically available at www.bcapre.bm and www.sec.gov at the same time they are filed with or furnished to the SEC. In addition, our Code of Conduct and Ethics as well as the various charters governing the actions of certain of our Committees of the Board, including our Audit Committee and our Compensation and Nominating Committee ("Compensation Committee") charters, are available at www.bcapre.bm. Updates to, as well as waivers of, our Code of Conduct and Ethics will also be made available on our website. Our website is not part of this Annual Report on Form 10-K and nothing from our website shall be deemed to be incorporated into this report.

We will provide to any shareholder, upon request and without charge, copies of these documents (excluding any applicable exhibits unless specifically requested). Requests should be directed to Investor Relations, Blue Capital Reinsurance Holdings Ltd., Suite No. 784, 48 Par-la-ville Road, Hamilton, Bermuda HM 11, telephone (441) 278-0988 or investorrelations@sompo-intl.com. All such documents are also physically available at our principal office at Waterloo House, 100 Pitts Bay Road, Pembroke HM 08, Bermuda.

Item 1A. Risk Factors

Before investing in any of our securities, you should carefully consider the following risk factors and all other information set forth in this Form 10-K. These risks could materially affect our business, run-off performance or financial condition and could cause the trading price of our securities to decline. You could lose all or part of your investment. The headings used in this section are solely to aid the reader as to general categories of risks related to investing in the Company. Many of the risk factors listed apply to more than one category or to the Company generally. Accordingly, the headings used in this section should not be construed as limiting in any manner the general applicability of any of the risk factors included in this section. Additional risks not presently known to us or that we deem immaterial may also impair our business or run-off performance.

UNDERWRITING RISKS

As a catastrophe reinsurer, we are particularly vulnerable to losses from catastrophes.

We are exposed to claims arising out of catastrophes on our business in run-off. Catastrophes can be caused by various unpredictable events, including earthquakes, hurricanes, hailstorms, severe weather, floods, fires, tornadoes, volcano eruptions, explosions and other natural or man-made disasters. Many scientists believe that the earth's atmospheric and oceanic temperatures are increasing and that, in recent years, changing climate conditions have increased the unpredictability, severity and frequency of natural disasters in certain parts of the world.

The global geographic distribution of our business has subjected us to catastrophe exposure for natural events occurring in a number of areas throughout the world, including, but not limited to, windstorms in the United Kingdom and continental Europe, hurricanes in Florida, the Gulf Coast and the Atlantic coast regions of the United States, typhoons and earthquakes in Japan, New Zealand, Australia and other parts of Southeast Asia, earthquakes in California and the Pacific Northwest and New Madrid region of the United States, wildfires in the forested regions of the United States, Canada and Australia and hail, tornado and flooding in the Midwestern United States. From time to time, we may have had greater exposures in one or more of these geographic areas than our overall share of the worldwide market might suggest. Accordingly, when and if catastrophes have occurred in these areas, we may have experienced relatively more severe negative results from such events than our competitors.

The estimation of reserves related to catastrophic events can be affected by the inability to access portions of the affected areas, the complexity of factors contributing to the losses, legal and regulatory uncertainties and the nature of the information available to establish the reserves. Complex factors include but are not limited to: determining whether damage was caused by flooding versus wind; evaluating pollution exposures; estimating additional living expenses; the impact of demand surge; infrastructure disruption; fraud; the effect of mold damage; business interruption costs; and reinsurance collectability. The timing of a catastrophe's occurrence, such as at or near the end of a reporting period, can also affect the information available to us in estimating reserves for that reporting period. The estimates related to catastrophes are adjusted as actual claims emerge and additional information becomes available.

The Manager has managed some of our key quantifiable risks using a combination of proprietary risk management models and systems, various third-party models and its underwriting judgment. The models utilized by the Manager have helped it to control risk accumulation, to inform our management and to improve our risk/return profile; however, these models may prove to be inaccurate and may understate our exposures and loss reserves.

Profitability may be adversely impacted by inflation.

The effects of inflation could cause the cost of claims from catastrophes or other events to rise in the future. Our reserve for losses and LAE includes assumptions about future payments for settlement of claims and claims handling expenses. To the extent inflation causes these costs to increase above reserves established for these claims, we will be required to increase our loss reserves with a corresponding reduction in our net income in the period in which the deficiency is identified.

We are subject to institutional credit risk that may adversely affect our business because we do business with institutions such as brokers, banks, custodians and other counterparties.

In the event of the insolvency of the institutions, including brokers, banks, custodians and other counterparties, with which we do business, or to which our assets have been entrusted, we may be temporarily or permanently deprived of the assets held by or entrusted to that institution, which may affect our performance.

In accordance with industry practice, we frequently pay amounts owed on claims under our reinsurance contracts to brokers, and these brokers, in turn, pay these amounts to the clients that have purchased reinsurance from us. If a broker fails to make such a payment, in a significant majority of business that we write, it is highly likely that we will be liable to the client for the deficiency because of local laws or contractual obligations, notwithstanding the broker's obligation to make such payment. Likewise, when the client pays premiums for these policies to brokers for payment over to us, these premiums are considered to have been paid and, in most cases, the client will no longer be liable to us for those amounts, whether or not we have actually received the premiums. Consequently, we assume a degree of credit risk associated with brokers around the world with respect to most of our reinsurance business. To date we have not experienced any losses related to such credit risks.

We rely on information provided by cedants and brokers in determining whether amounts are due following the occurrence of a covered event.

The determination of whether amounts are due following the occurrence of a covered event is typically based on reports and may be based upon information provided by cedants, brokers or an independent source, such as an index. If any of this information or data is incomplete, not genuine or inaccurate, our performance may be adversely affected as we run-off the Company.

The effects of emerging claim and coverage issues on our business are uncertain.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either broadening coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until sometime after we have issued reinsurance contracts that are affected by the changes. As a result, the full extent of liability under our reinsurance contracts may not be known for several years after a contract is issued. For example, an emerging claim and coverage issue is a growing trend of plaintiffs targeting property and casualty insurers relating to claims-handling practices in the adjustment of losses relating to natural disasters.

We may also be deemed liable for losses arising out of a matter that we had not anticipated or had attempted to contractually exclude. Moreover, irrespective of the clarity and inclusiveness of reinsurance contract language, there can be no assurance that a court or arbitration panel will limit enforceability of reinsurance contract language or not issue a ruling adverse to us. The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict and could have a material adverse effect on our financial condition or run-off performance.

OPERATING RISKS

We do not have any employees of our own, and we depend on service providers to perform substantially all of our executive, administrative and other functions, and termination of any of these relationships may materially disrupt our business.

We do not have any employees of our own. Our CEO and our CFO are employees of Sompo International and their services are provided to us through the Investment Management Agreement and Administrative Services Agreement.

Our CEO is the President and CEO of the Manager, the CFO of Sompo International and does not dedicate all of his time to running our business and is not required to dedicate any specific amount of time to running our business. As a result of his other obligations, our CEO may not be able to dedicate as much time to running our business as would a typical CEO, and he may face conflicts of interest that may make it difficult for him to operate our business.

Our CFO also serves as the Controller and Vice President of Sompo International and is the Treasurer of the Manager, and, therefore, does not dedicate all of his time to running our business and is not required to dedicate any specific amount of time to running our business. As a result of his other obligations, our CFO is not able to dedicate as much time to running our business as would a typical CFO, and he may face conflicts of interest that may make it difficult for him to operate our business.

We rely on service providers to perform many of our executive, administrative and other functions. In particular, affiliates of Sompo International provide us with accounting, legal, internal audit, administrative and other services that are integral to our

day-to-day operations. Failure by any service provider, whether or not an affiliate of Sompo International, to carry out its obligations to us in accordance with the terms of its agreement or to perform its obligations to us as a result of insolvency, bankruptcy or other causes could make it difficult, or in some cases impossible, for us to operate our business. In addition, the termination of any of these service relationships or any delay in appointing or finding a suitable replacement provider (if one exists) could make it difficult for us to operate our business.

Our Chairman and CEO, CFO and the officers of the Manager are compensated by Sompo International.

Our Chairman and CEO, CFO and the officers of the Manager are employees of Sompo International and are compensated by Sompo International, including through membership in Sompo International's incentive compensation plans. As a result, they may, consciously or unconsciously, favor Sompo International in dealings among us, Sompo International and the Manager.

We rely on the Manager for services that are essential to the operation of our business, and the loss of the Manager would make it difficult to operate our business.

The Manager manages our assets, subject to our underwriting guidelines and the oversight of the Board. Because we have no full-time employees, we are not able to manage our assets without the benefit of the services of the Manager, which has significant discretion as to the management of such assets.

The Manager provides underwriting services to Blue Capital Re, including loss control, claims, actuarial and administrative support services. Because we do not have any employees of our own, we cannot implement our run-off strategy without the benefit of these services, and the Manager has significant discretion as to our underwriting services with the oversight of the Board.

In the event that these services were to cease to be available from the Manager, we would be required to replace the Manager with one or more third-parties or to hire employees. In addition, the performance of the Manager depends heavily on the experience and availability of a limited number of individuals, all of whom are affiliated with Sompo International. Any loss of these individuals, for example, to death, incapacity, termination or resignation, could adversely affect the performance of the Manager. We cannot assure you that we could find a suitable replacement for the Manager quickly or at all, and any replacement may increase our expenses. The loss of the Manager could materially impair our ability to successfully operate our business.

We are dependent on Sompo International and if Sompo International were to experience difficulties, we could be materially adversely affected.

Since the Manager is an affiliate of Sompo International, and our CEO and CFO are both employees of Sompo International, if Sompo International's business were to experience difficulties, the attention and time of Sompo International's management would likely be directed to dealing with those difficulties. In these circumstances, there may not be sufficient management attention to our business, and our operations could suffer. It may be difficult, costly or time-consuming to replace the Manager or the other services Sompo International provides.

There may be conflicts of interest that result from our relationships with Sompo International and the Manager, which could result in decisions that are not in the best interests of our shareholders.

There may be conflicts of interest that arise out of our relationship with Sompo International and the Manager. Our Chairman, CEO and CFO are employees of Sompo International. In addition, the Manager is wholly-owned by Sompo International. As a result, our officers, our directors or the Manager may have conflicts between their duties to us and their duties to, and interests in, Sompo International or other parties.

The officers and employees of the Manager devote as much time to us as the Manager deems appropriate. However, these officers and employees may have conflicts in allocating their time and services among us, Sompo International, affiliates of Sompo International and other accounts. During turbulent conditions in the reinsurance industry or other times when we need focused support and assistance from the Manager, Sompo International and entities affiliated with Sompo International will likewise require greater focus and attention, placing the Manager's time and resources in high demand. In this situation, we

may not receive the support and assistance we require or would otherwise receive if we were completely internally managed or if the Manager did not act as a manager for other entities. Although we believe the Manager has established appropriate procedures to manage any actual or potential conflicts of interest, these procedures do not provide assurance that such conflicts will be avoided.

The agreements from which the Manager's compensation is derived may not be as favorable to us as if they had been negotiated with an unaffiliated third-party.

Neither the Investment Management Agreement nor the Underwriting and Insurance Management Agreement was negotiated between unaffiliated third-parties, and these agreements may not be as favorable to us as if they had been negotiated with an unaffiliated third-party and may be costly and difficult to terminate.

The Investment Management Agreement that we have entered into with the Manager was negotiated between related parties, and although approved by the Board, its terms, including fees payable, may not be as favorable to us as if this agreement had been negotiated with an unaffiliated third-party. Various potential and actual conflicts of interest may arise from the activities of the Manager by virtue of the fact that the Manager is controlled by Somp International.

Similarly, the Underwriting and Insurance Management Agreement that we and Blue Capital Re have entered into with the Manager was negotiated between related parties, and although approved by the Board, its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third-party. Various potential and actual conflicts of interest may arise from the activities of the Manager by virtue of the fact that the Manager is controlled by Somp International. The Manager does not assume any responsibility other than provision of the services called for under the Underwriting and Insurance Management Agreement.

We generally may not terminate either the Investment Management Agreement or the Underwriting and Insurance Management Agreement other than at three year intervals, whether or not the Manager's performance is satisfactory, and under certain circumstances we will have to pay a termination fee if either the Investment Management Agreement or the Underwriting and Insurance Management Agreement is terminated or not renewed. We may not amend or modify any provision of either the Investment Management Agreement or the Underwriting and Insurance Management Agreement without the prior written consent of the Manager.

Under both the terms of the Investment Management Agreement and the terms of the Underwriting and Insurance Management Agreement, the Manager (and any person to whom the Manager has delegated or sub-contracted any of its functions) will not be liable for any losses except to the extent such losses are determined to be the direct result of an act or omission of the Manager that constitutes gross negligence, fraud, dishonesty or willful misconduct of the Manager.

In addition, we generally must indemnify the Manager and its affiliates, directors, officers, employees, agents, successors and permitted assigns for, from and against losses: (i) arising out of or relating to any demand, charge or claim in respect of acts, omissions, transactions, duties, obligations or responsibilities; or (ii) arising out of any acts or omissions by us arising out of the Investment Management Agreement or the Underwriting and Insurance Management Agreement, as applicable, of the Manager and its affiliates, directors, officers, employees, agents, successors and permitted assigns.

As a Bermuda company, we may be unable to attract and retain employees.

We do not have any employees of our own. If we were to hire any employees in the future, they would likely be employed in Bermuda. We also rely on services from other Bermuda companies, including the Manager. It may be difficult for us or the Manager to attract and retain experienced personnel in Bermuda, particularly if we are unable to secure Bermuda work permits for our personnel or if the Manager's personnel are unable to secure Bermuda work permits. In addition, Bermuda is a highly competitive location for qualified staff, especially in the reinsurance and insurance industry, making it harder to attract and retain employees. As the successful run-off of our business depends on our, and the Manager's, ability to hire and retain personnel, any future difficulties in hiring or retaining personnel in Bermuda or elsewhere could adversely affect our business.

We cannot assure you that any liquidating distribution will be made to our shareholders or, if made, the exact amount or timing of distributions.

Our winding up and liquidation process will be subject to uncertainties. It is possible that there will be no liquidating distribution made to our shareholders. The amount and timing of any liquidating distribution to our shareholders will depend on the following factors, among others:

- whether any potential claimants against us and currently unknown to us could present claims relating to our prior operations that we may ultimately have to satisfy;
- the payment of expenses to be incurred for the operation of the business through our winding-up and liquidation;
- the costs we may have to incur to defend claims, including possible claims against us relating to our winding up and ultimate liquidation;
- the amounts that we will need to pay for general administrative and overhead costs and expenses prior to our ultimate liquidation;
- the revenues that we will receive from investment income earned on collateral supporting our insurance liabilities and premiums from reinsurance treaties;
- the costs attendant on us as a publicly held reporting company under SEC regulations, including legal and auditing fees, during the period we are obligated to continue preparing and filing our annual, quarterly and current reports;
- how much of our funds we will be required to reserve to provide for contingent liabilities, and how long it may take to finally determine whether and how much of those liabilities may have to be paid.
- our dependence on regulatory approvals for special distributions.

We will continue to incur expenses that will reduce any amounts available for distribution to our shareholders.

Claims, liabilities and expenses from operations will continue to be incurred by us as we wind down. While we have estimated future expenses and wind up costs as part of adopting the liquidation basis of accounting, these estimates are subject to significant uncertainty and actual costs may exceed these estimates. These expenses will reduce the amount of funds available for distribution to our shareholders.

We may be subject to litigation, which is expensive and could divert our attention.

We may be subject to litigation in connection with our winding-up and liquidation. Litigation against us could result in substantial costs and divert our management's attention from the winding-up and liquidation, which could decrease the amount available for distribution to our shareholders.

Our Board may abandon implementation of the winding-up and liquidation of the Company.

Our board of directors has the right to abandon the winding-up and liquidation prior to its completion. While our board of directors does not currently intend to do so, it will do so if it determines, based on intervening circumstances, that it is not in the best interest of the Company and its shareholders to continue with the winding-up and liquidation.

Further, our board of directors has the right to abandon the winding-up upon the receipt of an offer from a third party to purchase the Company. Upon receipt of an offer to purchase the Company, we would seek shareholder approval prior to consummating any such sale.

Operational risks, including the risk of fraud and any errors and omissions, are inherent in our business and could have a material adverse impact on our business or run-off performance.

Operational risks that are inherent in our business can result in financial losses, including those resulting from fraud or errors and omissions by any employees or by our third-party service providers, including the Manager. Although we believe that we have established appropriate controls and mitigation procedures to prevent significant fraud, errors and omissions and other potential irregularities from occurring, these controls and procedures do not provide absolute assurance as to the absence and mitigation of these risks.

Technology breaches or failures, including, but not limited to, those resulting from a malicious cyber attack on us, the Manager or our third-party service providers, could disrupt or otherwise negatively impact our business.

We, the Manager and our third-party service providers rely on information technology systems to process, transmit, store and protect the electronic information, financial data and proprietary models that are critical to our business. Furthermore, a significant portion of the communications between us, the Manager and our third-party service providers depends upon information technology and electronic information exchange. The information technology systems of the Manager and our third-party service providers are vulnerable to data breaches, interruptions or failures due to events that may be beyond their control, including, but not limited to, natural and man-made disasters, theft, terrorist attacks, computer viruses, hackers and general technology failures.

Any information technology systems that we may develop in the future would also be vulnerable to these same risks. Despite safeguards we and our service providers may take to protect the information systems that we rely on, disruptions to and breaches of such information technology systems are possible and may negatively impact our business, including our reputation in the insurance and reinsurance marketplace.

It is possible that insurance policies we have in place would not entirely protect us in the event that we were to experience a breach, interruption or widespread failure of the information technology systems we rely on. Furthermore, we have not secured insurance coverage designed to specifically protect us from an economic loss resulting from such an event.

Although we have never experienced any known or threatened cases involving unauthorized access to the information technology systems we rely on or unauthorized appropriation of our data contained within such systems, we cannot assure you that such technology breaches will not occur in the future.

As part of the winding-up and liquidation, we intend to delist our common shares from the New York Stock Exchange and the Bermuda Stock Exchange prior to March 31, 2020 and terminate the registration of our common shares and suspend our reporting obligations under the Securities Exchange Act of 1934, as amended, shortly thereafter. The delisting from the New York Stock Exchange and the termination of the registration of our common shares would likely cause the liquidity and market price of our common shares to decline.

Our common shares currently trade on the New York Stock Exchange under the symbol BCRH and on the Bermuda Stock Exchange under the symbol BCRH.BH. As part of the winding-up and liquidation, we intend to delist our common shares from the New York Stock Exchange and the Bermuda Stock Exchange prior to March 31, 2020 and terminate the registration of our common shares and suspend our reporting obligations under the Securities Exchange Act of 1934, as amended, shortly thereafter. If we delist our common shares from the New York Stock Exchange and Bermuda Stock Exchange and terminate the registration of our common shares under the Securities Exchange Act of 1934, as amended, it could potentially impair the liquidity of our common shares, not only in the number of common shares that could be bought and sold at a given price, which might be depressed by the relative illiquidity, but also through delays in the timing of transactions and the potential reduction in media coverage. As a result, an investor might find it more difficult to dispose of our common shares and the market price of our common shares may decline.

As a result of the plan for an orderly run-off and liquidation, certain institutional shareholders may be required to sell their shares of our common stock.

Upon the adoption of the plan for an orderly run-off and liquidation, the governing documents of certain of our institutional investors may prohibit them from holding shares of our common stock. If that were to be the case, such institutional investors would be required to divest of the shares of our common stock they hold which would create downward pressure on the trading price of our Common Shares. If this were to occur, shareholders who sell shares of common stock prior to the completion of the liquidation may receive less than shareholders who receive all liquidating distributions ultimately made.

If actual claims exceed our reserve for losses and LAE, our financial condition and run-off performance could be adversely affected.

Our success depends upon our ability to accurately assess the risks associated with the businesses that we reinsure. We establish loss reserves to cover our estimated liability for the payment of all losses and LAE incurred with respect to premiums

earned on the policies that we write. Loss reserves do not represent an exact calculation of liability. Rather, our loss and LAE reserves are estimates of what we expect the ultimate settlement and administration of claims will cost. These estimates are based upon actuarial and statistical projections and on our assessment of currently available data, as well as estimates of future trends in claims severity and frequency, judicial theories of liability and other factors. Loss reserve estimates are refined continually in an ongoing process as experience develops and claims are reported and settled. Establishing an appropriate level of loss reserves is an inherently uncertain process. Moreover, these uncertainties are greater for companies like us than for those with a longer operating history because we do not yet have an extensive loss history. Because of this uncertainty, it is possible that our reserves at any given time will prove inadequate.

To the extent we determine that actual losses and LAE exceed our expectations and loss reserves recorded in our financial statements, we will be required to increase our reserve for losses and LAE. This could cause a material reduction in our capital available for return to shareholders.

We are subject to loss settlements made by ceding companies and fronting carriers, which could materially adversely affect our performance.

Where Blue Capital Re entered into reinsurance contracts, all loss settlements made by a ceding company, provided they are within the terms of the underlying policies and within the terms of the relevant contract, will be unconditionally binding upon us. While we believe that the ceding companies will settle such claims in good faith, we are bound to accept the claims settlements agreed to by the ceding companies. Under the underlying policies, each ceding company bears the burden of proving that a contractual exclusion applies to a loss, and there may be circumstances where the facts of a loss are insufficient to support the application of an exclusion. In such circumstances, we assume such losses under the reinsured policies, which could materially adversely affect our performance.

Operational risks, including systems or human failures, are inherent in business, including ours, and could adversely affect our financial condition and run-off performance.

We are subject to operational risks including fraud, employee errors, failure to document transactions properly or to obtain proper internal authorization, failure to comply with regulatory requirements or obligations under our agreements, information technology failures, or external events. Losses from these risks may occur from time to time and may be significant.

While we and our Manager has implemented disaster recovery and other business continuity plans, a defect or failure in our internal controls or information technology systems could result in higher than expected losses, management distraction, or harm to our operations. We believe appropriate controls and mitigation procedures are in place to prevent significant risk of defect in our internal controls and information technology systems, but internal controls provide only reasonable, not absolute, assurance as to the absence of errors or irregularities and any ineffectiveness of such controls and procedures could have a material adverse effect on the run-off of our business.

LEGAL AND REGULATORY RISKS

Regulatory restrictions on dividends and the return of capital may impact our ability to fund special distributions to shareholders.

In order to distribute capital to our shareholders when it becomes available after the settlement of existing liabilities and expenses, the Company will be reliant on the ability of Blue Capital Re to dividend adequate funds to the Company. After October 25, 2019, Blue Capital Re may not pay any dividend to the Company without prior approval from the BMA. We cannot offer any assurance that we will receive such approval from the BMA. Absent receipt of dividends from Blue Capital Re, the Company's ability to make distributions to the Company's shareholders may be prevented or delayed.

CORPORATE RISKS

Sompo International has substantial control over us, which limits your ability to influence corporate matters and may result in conflicts of interest.

Sompo International currently has a 33.2% interest in the Company and therefore exerts considerable influence over matters presented to our shareholders for approval, including the election of directors and change of control transactions. Sompo International has the right to nominate two out of our five directors (or, if the Board consists of more than five directors, no less than 40% of the total Board seats at any given time), until the later of the date on which: (i) Sompo International sells any of its Common Shares; and (ii) Sompo International owns less than 5% of our Common Shares. This control may delay, deter or prevent acts that would be favored by our other shareholders, as the interests of Sompo International may not always coincide with the interests of our other shareholders. In particular, Sompo International has interests in us by virtue of our contracts with the Manager (see "*Conflicts of Interest*" contained in Item 1 herein for a description of these contracts). Sompo International may seek to cause us to take courses of action that, in its judgment, could enhance its interests or its investment in us, but which might involve risks to our other shareholders or adversely affect us or our other shareholders. In addition, this concentration of share ownership may adversely affect the trading price of our Common Shares because investors may perceive disadvantages in owning shares in a company with a significant shareholder.

Future sales or the possibility of future sales of a substantial amount of our Common Shares may depress the price of our shares.

Sompo International currently owns 2,917,032 Common Shares, representing 33.2% of our total outstanding Common Shares. These Common Shares may be sold into the market in accordance with Rule 144 under the Securities Act. In addition, Sompo International has the ability to require us to register the Common Shares it holds pursuant to a shareholder and registration rights agreement.

Our bye-laws and provisions of Bermuda law may impede or discourage a change of control transaction, which could deprive our investors of the opportunity to receive a premium for their Common Shares.

Our bye-laws and provisions of Bermuda law to which we are subject contain provisions that could discourage, delay or prevent "change of control" transactions or changes in the Board and management that certain shareholders may view as beneficial or advantageous. These provisions include, among others:

- the Board is divided into three classes, with each class serving for a staggered three-year term, which prevents shareholders from electing an entirely new board of directors at an annual meeting;
- the Board has the authority to issue preferred shares without shareholder approval, which could be used to dilute the ownership of a potential hostile acquirer;
- the Board may decline to record the transfer of any Common Shares on our share register if they believe that: (i) registration of the transfer is required under any federal or state securities law or under the laws of any other jurisdiction and the registration has not yet been effected; or (ii) such transfer is likely to expose us to adverse tax consequences or materially adverse legal or regulatory treatment in any jurisdiction;
- our shareholders may only remove directors for cause, or for other reasons set out in our bye-laws (e.g., unsound mind);
- there are advance notice requirements for shareholders with respect to director nominations and actions to be taken at annual meetings; and
- under Bermuda law, for so long as Blue Capital Re is registered under the Insurance Act, the BMA may object to a person holding more than 10% of our Common Shares if it appears to the BMA that the person is not or is no longer fit and proper to be such a holder.

The foregoing factors, as well as the significant share ownership by Sompo International, could impede a merger, takeover or other business combination, which could reduce the market value of our Common Shares.

A shareholder may be required to sell its shares of Blue Capital.

Under our bye-laws and subject to Bermuda law, we have the option, but not the obligation, to require a shareholder to sell some or all of its Common Shares to us at fair market value (with fair market value determined in accordance with our bye-

laws) if the Board reasonably determines, in good faith based on an opinion of counsel, that share ownership, directly, indirectly or constructively, by such shareholder is likely to result in adverse tax, regulatory or legal consequences to us, certain of our other shareholders or our subsidiaries.

There are regulatory limitations on the ownership and transfer of our Common Shares.

The Insurance Act requires that, in respect of a company whose shares are listed on a stock exchange recognized by the BMA, any person who becomes (or ceases to be) a holder of at least 10%, 20%, 33% or 50% of the shares of an insurance or reinsurance company or its parent must notify the BMA in writing within 45 days of becoming such a holder or 30 days from the date they have knowledge of having such a holding, whichever is later. This requirement will apply to us as long as our shares are listed on the New York Stock Exchange or the Bermuda Stock Exchange. If our Common Shares are no longer listed on the New York Stock Exchange or the Bermuda Stock Exchange or another exchange recognized by the BMA, the BMA may, by written notice, object to a person holding 10%, 20%, 33% or 50% of our Common Shares if it appears to the BMA that the person is not fit and proper to be such a holder. The BMA may require the holder to reduce its shareholding in us and may direct, among other things, that the voting rights attaching to its shares shall not be exercisable. A person that does not comply with such a notice or direction from the BMA will be guilty of an offense.

In addition, pursuant to the Exchange Control Act 1972 and related regulations of Bermuda, specific permission is required from the BMA for all issuances and transfers of securities of Bermuda companies, other than in cases where the BMA has granted a general permission. The BMA, in its policy dated June 1, 2005, provides that where any equity securities of a Bermuda company, which would include the Common Shares, are listed on an appointed stock exchange (which includes the New York Stock Exchange and the Bermuda Stock Exchange), general permission is given for the issue and subsequent transfer of any securities of the company from and to non-residents, for as long as any equity securities of the company remain so listed. Once the Common Shares are delisted from the New York Stock Exchange and the Bermuda Stock Exchange the general permission will no longer apply. The Company has applied to the BMA for an additional permission to permit the free transferability of Common Shares once they are delisted from the New York Stock Exchange and the Bermuda Stock Exchange. However, absent receipt of such permission from the BMA, advance approval will need to be obtained, or notification will need to be made, to the BMA for transfers of Common Shares.

Blue Capital Re is also required to notify the BMA in writing in the event any person has become or has ceased to be a Controller or an officer of it, an officer being a director, chief executive or senior executive performing duties of underwriting, actuarial, risk management, compliance, internal audit, finance or investment matters.

Except in connection with the settlement of trades or transactions entered into through the facilities of the New York Stock Exchange and the Bermuda Stock Exchange, the Board may generally require any shareholder or any person proposing to acquire our Common Shares to provide the information required under our bye-laws. If any such shareholder or proposed acquirer does not provide such information, or if the Board has reason to believe that any certification or other information provided pursuant to any such request is inaccurate or incomplete, the Board may decline to register any transfer or to effect any issuance or purchase of Common Shares to which such request is related.

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

The Companies Act, which applies to Blue Capital, differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. These differences include the manner in which directors must disclose transactions in which they have an interest, the rights of shareholders to bring class action and derivative lawsuits and the scope of indemnification available to directors and officers.

Bermuda law differs from the laws in effect in the U.S. and may afford less protection to holders of our shares.

We are organized under the laws of Bermuda. As a result, our corporate affairs are governed by the Companies Act, which differs in some material respects from laws typically applicable to U.S. corporations and shareholders, including the provisions relating to interested directors, amalgamations, mergers and acquisitions, takeovers, shareholder lawsuits and indemnification of directors. Generally, the duties of directors and officers of a Bermuda company are owed to the company only. Shareholders of Bermuda companies typically do not have rights to take action against directors or officers of the company and may only do so in limited circumstances. Class actions are not available under Bermuda law. The

circumstances in which derivative actions may be available under Bermuda law are substantially more proscribed and less clear than they would be to shareholders of U.S. corporations. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong to the company where the act complained of is alleged to be beyond the corporate power of the company or illegal, or would result in the violation of the company's memorandum of association or bye-laws. Furthermore, consideration would be given by a Bermuda court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than that which actually approved it.

When the affairs of a company are being conducted in a manner that is oppressive or prejudicial to the interests of some shareholders, one or more shareholders may apply to the Supreme Court of Bermuda, which may make such order as it sees fit, including an order regulating the conduct of the company's affairs in the future or ordering the purchase of the shares of any shareholders by other shareholders or by the company. Additionally, under our bye-laws and as permitted by Bermuda law, each shareholder has waived any claim or right of action against our directors or officers for any action taken by directors or officers in the performance of their duties, except for actions involving fraud or dishonesty. In addition, the rights of holders of our Common Shares and the fiduciary responsibilities of our directors under Bermuda law are not as clearly established as under statutes or judicial precedent in existence in jurisdictions in the U.S., particularly the State of Delaware. Therefore, holders of our Common Shares may have more difficulty protecting their interests than would shareholders of a corporation incorporated in a jurisdiction within the U.S.

Anti-takeover provisions in our bye-laws could impede an attempt to replace or remove our directors, which could diminish the value of our Common Shares.

Blue Capital's bye-laws contain provisions that may make it more difficult for shareholders to replace directors even if the shareholders consider it beneficial to do so. In addition, these provisions could delay or prevent a change of control that a shareholder might consider favorable. Even in the absence of an attempt to effect a change in management or a takeover attempt, these provisions may adversely affect the prevailing market price of our Common Shares if they are viewed as discouraging changes in management and takeover attempts in the future.

The price of our Common Shares may fluctuate significantly and you could lose all or part of your investment.

Volatility in the market price of our Common Shares may prevent you from being able to sell your Common Shares at or above the price you paid for your Common Shares. The market price for our Common Shares can fluctuate significantly for various reasons, including:

- catastrophes that may specifically impact us or are perceived by investors as impacting the reinsurance market in general;
- the financial condition, financial performance and prospects of the Company, the Manager or Sompo International;
- our quarterly or annual change in value of net assets or earnings of other companies in our industry;
- exposure to capital market risks related to the performance of insurance-linked investments;
- our capital management policy and whether special distributions on our Common Shares have been, and are likely to be, declared and paid from time to time;
- speculation by the investment community regarding our business;
- future announcements concerning our business or our competitors' businesses;
- the public's reaction to our press releases, other public announcements and filings with the SEC;
- market and industry perception of our success, or lack thereof, in pursuing our strategy;
- strategic actions by us or our competitors, such as acquisitions, restructurings, significant contracts or joint ventures;
- changes in government regulation;
- potential characterization of us as an investment company, a controlled foreign corporation or a passive foreign investment company;
- general market, economic and political conditions;
- changes in conditions or trends in our industry, geographies or customers;

- arrival and departure of key personnel of the Company, the Manager or Sompo International;
- sales of our Common Shares by us, Sompo International, our directors or members of our management team; and
- adverse resolution of litigation against us.

In addition, stock markets, including the New York Stock Exchange and the Bermuda Stock Exchange, have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities issued by many companies, including companies in our industry. In the past, some companies that have had volatile market prices for their securities have been subject to class action or derivative lawsuits. The filing of a lawsuit against us, regardless of the outcome, could have a negative effect on our business, as it could result in substantial legal costs and a diversion of management's attention and resources.

As a result of the factors described above, investors in our Common Shares may not be able to resell their Common Shares at or above the price they paid or may not be able to resell them at all. These market and industry factors may materially reduce the market price of our Common Shares, regardless of our operating performance. In addition, price volatility may be greater if the public float and the trading volume of our Common Shares are low.

It may be difficult to enforce service of process and enforcement of judgments against us and our officers and directors.

Blue Capital is a Bermuda company and certain of its officers and directors are residents of jurisdictions outside the United States. A substantial portion of its assets and its officers and directors, at any one time, are or may be located in jurisdictions outside the United States. It may be difficult for investors to effect service of process within the United States on our directors and officers who reside outside the United States or to enforce against us or our directors and officers judgments of U.S. courts predicated upon civil liability provisions of the U.S. federal securities laws.

There is no treaty in force between the United States and Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As a result, whether a United States judgment would be enforceable in Bermuda against us or our directors and officers depends on whether the U.S. court that entered the judgment is recognized by the Bermuda court as having jurisdiction over us or our directors and officers, as determined by reference to Bermuda conflict of law rules.

In addition to and irrespective of jurisdictional issues, the Bermuda courts will not enforce a United States federal securities law that is either penal or contrary to Bermuda public policy. An action brought pursuant to a public or penal law, the purpose of which is the enforcement of a sanction, power or right at the instance of the state in its sovereign capacity, will not be entertained by a Bermuda court. Consequently, certain remedies available under the laws of U.S. jurisdictions, including certain remedies under U.S. federal securities laws, may not be available under Bermuda law or enforceable in a Bermuda court, as they may be contrary to Bermuda public policy. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violation of U.S. federal securities laws because these laws have no extraterritorial jurisdiction under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

TAXATION RISKS

We and our subsidiaries may be subject to U.S. tax which may have a material adverse effect on our financial condition and run-off performance.

The Company and its subsidiaries are Bermuda companies. Each intends to operate in such a manner that none will be deemed to be engaged in the conduct of a trade or business within the United States. However, whether business is being conducted in the United States is an inherently factual determination. Because definitive identification of activities which constitute being engaged in a trade or business in the United States is not provided by the U.S. Internal Revenue Code of 1986, as amended (the "Code"), regulations or court decisions, the U.S. Internal Revenue Service (the "IRS") might successfully contend that any of the Company and/or its subsidiaries are/is engaged in a trade or business in the United States. A non-U.S. corporation deemed to be so engaged would be subject to U.S. income tax at regular corporate rates, as well as the branch profits tax, on its income that is treated as effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under the permanent establishment provision of an applicable tax treaty, as discussed below. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to

that applied to the income of a U.S. corporation, except that a non-U.S. corporation is generally entitled to deductions and credits only if it timely files a U.S. federal income tax return. Each of the Company and Blue Capital Re file protective U.S. federal income tax returns on a timely basis in order to preserve the right to claim income tax deductions and credits if it is ever determined that it is subject to U.S. federal income tax. The highest marginal federal income tax rates as of 2020 are 21% for a corporation's effectively connected income and 30% for the branch profits tax. If Blue Capital Re were to qualify for benefits under the tax treaty between the United States and Bermuda (the "Bermuda treaty"), Blue Capital Re would not be subject to U.S. income tax on any business profits of its insurance enterprise found to be effectively connected with a U.S. trade or business, unless that trade or business is conducted through a permanent establishment in the United States. Blue Capital Re does not have sufficient information about its ownership to determine whether it would be entitled to the benefits of the Bermuda Treaty. However, based on the information that it does possess, Blue Capital Re believes that it may not be entitled to the benefits of the Bermuda Treaty. If the Company and/or its subsidiaries were subject to U.S. federal income tax, our financial condition and run-off performance, as well as an investment in our Common Shares, could be materially adversely affected.

U.S. persons who hold our Common Shares may be subject to U.S. income taxation at ordinary income tax rates on our undistributed earnings and profits under the controlled foreign corporation ("CFC") rules.

If the Company or any of its subsidiaries were considered a CFC, any "10% U.S. Shareholder" (as defined below) may be subject to current U.S. income taxation at ordinary income tax rates on all or a portion of the Company's or its subsidiaries' undistributed earnings and profits attributable to the Company's insurance and reinsurance income, including underwriting and investment income, other subpart F income and an additional category of income in excess of a prescribed return (global intangible low-taxed income). Any gain realized on a sale of our Common Shares by such shareholder may also be taxed as a dividend to the extent of the Company's earnings and profits attributed to such shares during the period that the shareholder held the shares and while the Company was a CFC (with certain adjustments). A foreign corporation is considered a CFC if 10% U.S. Shareholders own (directly, indirectly through foreign entities or constructively pursuant to the application of certain constructive ownership rules) more than 50% of the total combined voting power of all classes of voting stock of such foreign corporation, or the total value of all stock of such corporation. For purposes of taking into account insurance income, a CFC also includes a foreign corporation in which more than 25% of the total combined voting power or value of all classes of stock is owned (directly, indirectly through foreign entities or constructively pursuant to the application of certain constructive ownership rules) by 10% U.S. Shareholders, on any day during the taxable year of such corporation, if the gross amount of premiums or other consideration for the reinsurance or the issuing of insurance contracts exceeds 75% of the gross amount of all premiums or other consideration in respect of all risks.

On December 22, 2017, the United States enacted a budget reconciliation act amending the Internal Revenue Code of 1986 (the "TCJA"). Prior to the enactment of the TCJA, a "10% U.S. Shareholder" was defined as any shareholder that is a U.S. person that owns directly, indirectly or by attribution, 10% or more of the total voting power of the Company. However, for taxable years beginning after December 31, 2017, the TCJA expands the definition of a "10% U.S. Shareholder" to include U.S. persons that own directly, indirectly or by attribution, 10% or more of either the total voting power of the Company or total value of the stock of the Company. TCJA also expands the application of the constructive ownership rules that are applied for determining whether a U.S. person is a 10% U.S. Shareholder of a foreign corporation. Under prior law, certain ownership attribution rules did not apply so as to treat a U.S. person as owning stock that is owned by a non-U.S. person. TCJA has repealed this limitation. Consequently, under the new attribution rules, Common Shares owned by Endurance Bermuda would be treated as owned by Endurance U.S. Holdings Corp. Accordingly, Endurance U.S. Holdings Corp. would be treated as a 10% U.S. Shareholder for purposes of determining whether Blue Capital Re is a CFC. The Senate Finance Committee suggested, however, that the repeal of the limitation to the ownership attribution rules is not intended to cause a foreign corporation to be treated as a CFC with respect to an unrelated U.S. person, such as an investor for example. Although the U.S. Treasury Department issued proposed regulations in October 2019 addressing some of the concerns raised by the repeal of the ownership attribution rule described above, they do not address the impact such repeal has on us or otherwise confirm this intent. Until further guidance is issued by the U.S. Treasury Department or the IRS confirms or otherwise codifies this intent, based on the technical application of the TCJA, we would be treated as a CFC for purposes of taking into account our insurance income. By expanding the constructive ownership rules and the definition of 10% U.S. Shareholder, the TCJA will increase the likelihood that an investor could be treated as a 10% U.S. Shareholder in 2018 and in any subsequent taxable years. Investors should consult their tax advisors regarding the application of the CFC rules to an investment in our Common Shares.

U.S. persons who hold our Common Shares may be subject to U.S. income taxation on their pro rata share of our related party insurance income ("RPII").

The CFC rules apply to certain insurance and reinsurance companies that earn RPII. If the RPII rules were to apply to Blue Capital Re, a U.S. person who owns our Common Shares directly, or indirectly through foreign entities, on the last day of the

taxable year would be required to include in its income for U.S. federal income tax purposes the shareholder's pro rata share of Blue Capital Re's RPII for the entire taxable year, determined as if such RPII were distributed proportionately to such U.S. shareholders at that date regardless of whether such income is distributed. In addition, any RPII that is to be included in the income of a U.S. tax-exempt organization would be treated as unrelated business taxable income. Although Blue Capital Re intends to generally operate in a manner so as to qualify for certain exceptions to the RPII rules, there can be no assurance that these exceptions will be available. Accordingly, there can be no assurance that U.S. persons who own our Common Shares will not be required to recognize gross income inclusions attributable to RPII.

U.S. persons who dispose of our Common Shares may be subject to U.S. federal income taxation at the rates applicable to ordinary income.

Section 1248 of the Code, in conjunction with the RPII rules, provides that if a shareholder who is a U.S. person disposes of shares in a foreign insurance corporation that has RPII and in which U.S. persons collectively own 25% or more of the shares, by vote or value, at any time during the five-year period ending on the date of the disposition any gain from the disposition will generally be treated as ordinary income to the extent of the shareholder's share of the corporation's undistributed earnings and profits that were accumulated during the period that the shareholder owned the shares (possibly whether or not such earnings and profits are attributable to RPII). In addition, such a shareholder will be required to comply with certain reporting requirements, regardless of the amount of shares owned by the shareholder. The Company believes that these rules should not apply to dispositions of our Common Shares because the Company is not itself directly engaged in the insurance business. The RPII provisions, however, have not been interpreted by the courts or the U.S. Treasury Department, and regulations interpreting the RPII provisions of the Code exist only in proposed form. Accordingly, the IRS might interpret the proposed regulations in a different manner and the applicable proposed regulations may be promulgated in final form in a manner that would cause these rules to apply to dispositions of our Common Shares.

U.S. persons who hold our Common Shares will be subject to adverse tax consequences if we are considered a passive foreign investment company ("PFIC") for U.S. federal income tax purposes.

For U.S. federal income tax purposes, a foreign corporation will generally be considered a PFIC during a given year if (i) 75% or more of its gross income constitutes "passive income" or (ii) 50% or more of its assets produce passive income. For purposes of the PFIC determination, passive income generally includes interest, dividends, capital gains, annuities and other investment income. The PFIC statutory provisions contain an express exception for income derived in the active conduct of an insurance business. The PFIC statutory provisions also contain a look-through rule stating that, for purposes of determining whether a foreign corporation is a PFIC, such foreign corporation shall be treated as if it received directly its proportionate share of the income and as if it held its proportionate share of the assets of any other corporation in which it owns at least 25% by value of the shares. While no explicit guidance is provided by the statutory language, under this look-through rule the Company should be deemed to own the assets and to have received the income of Blue Capital Re directly for purposes of determining whether it qualifies for the insurance business exception.

To qualify for the exception applicable to corporations engaged in the active conduct of an insurance business, the applicable insurance liabilities of such corporation must exceed 25 percent of its total assets. It is unclear how liability reserves are measured and taken into account for purposes of determining the applicable insurance liabilities. Based on our insurance liability reserves as at December 31, 2019, we believe we satisfied the 25% test and that we should not be considered a PFIC for U.S. federal income tax purposes for the year then ended. Due to the uncertainties and ambiguities in the application of the PFIC provisions, however, there can be no assurance that the IRS will agree with our belief regarding PFIC status. Moreover, in the future if we experience a period with a lower incidence of loss events impacting our portfolio of business and in which our current estimates for insurance liabilities are settled, it is possible that we will no longer meet the 25% test. If a corporation fails the 25% test, U.S. tax law provides an alternative test which permits a U.S. person that owns stock in such corporation to elect to treat such stock as stock of a qualifying insurance corporation if (A) the corporation's applicable insurance liabilities are at least equal to 10% of its total assets and (B) under U.S. Treasury Regulations to be issued, based on the applicable facts and circumstances, (i) the corporation is predominantly engaged in an insurance business and (ii) the failure to satisfy the 25% test is due solely to runoff-related or rating-related circumstances involving such insurance business. Proposed U.S. Treasury Regulations have recently been issued that are intended to provide additional guidance regarding the determination of whether a foreign corporation will constitute a "qualifying insurance corporation" and clarify the circumstances under which investment income earned by a qualifying insurance corporation is derived in the active conduct of an insurance business. It is uncertain if, when and in what form the proposed

regulations will be finalized and if, when or in what form any additional guidance will be provided by the IRS regarding the application of the PFIC provisions to foreign insurance companies, or if enacted, whether such guidance would have retroactive effect. Under certain circumstances, however, U.S. persons that are shareholders in certain foreign corporations may rely upon the proposed regulations. Due to the ambiguities in the application of the TCJA and the PFIC provisions in general and because we cannot determine whether we would be a PFIC for the current taxable year until the end of the year, it is possible that we could be considered a PFIC for the current and any future taxable years.

If we are classified as a PFIC, a U.S. holder of our Common Shares that does not make any of the elections described below would be required to report any gain on the disposition of our Common Shares as ordinary income, rather than as capital gain, and to compute the tax liability on the gain and any "Excess Distribution" (as defined below) received in respect of our Common Shares as if such items had been earned ratably over each day in such holder's holding period (or a portion thereof) for the Common Shares. The amounts allocated to the taxable year during which the gain is realized or distribution is made, and to any taxable years in such U.S. holder's holding period that are before the first taxable year in which we are treated as a PFIC with respect to the U.S. holder, would be included in the U.S. holder's gross income as ordinary income for the taxable year of the gain or distribution. The amount allocated to each other taxable year would be taxed as ordinary income in the taxable year during which the gain is realized or distribution is made at the highest tax rate in effect for the U.S. holder in that other taxable year and would be subject to an interest charge as if the income tax liabilities had been due with respect to each such prior year. For purposes of these rules, exchanges pursuant to corporate liquidations, gifts, and use of Common Shares as security for a loan may be treated as a taxable disposition of the Common Shares. An "Excess Distribution" is the amount by which distributions during a taxable year in respect of a Common Share exceed 125% of the average amount of distributions in respect thereof during the three preceding taxable years (or, if shorter, the U.S. holder's holding period for the Common Shares). In addition, if we were considered a PFIC, dividends paid in respect of our Common Shares would not be eligible for the preferential tax rate applied to "qualified dividend income" received by certain non-corporate U.S. holders.

Certain additional adverse U.S. federal tax rules will apply to a U.S. holder of our Common Shares for any taxable year in which the Company is treated as a PFIC with respect to such U.S. holder and any of our subsidiaries is also treated as a PFIC (a "Subsidiary PFIC"). In such a case, such U.S. holder will generally be deemed to own its proportionate interest (by value) in any Subsidiary PFIC and be subject to the PFIC rules described above with respect to the Subsidiary PFIC regardless of such U.S. holder's percentage ownership in the Company.

The adverse tax consequences described above may be mitigated if a U.S. holder of our Common Shares is able to make a timely qualified electing fund election (a "QEF election") or a mark-to-market election with respect to our Common Shares. A QEF election made with respect to the Company, however, will not apply to any Subsidiary PFIC; a QEF election must be made separately for each Subsidiary PFIC. A QEF election may only be made by a holder of our Common Shares if, among other things, the Company provides such holder with certain information. It is uncertain whether the Company would be able to provide investors with the information necessary to make a QEF election. A mark-to-market election (instead of a QEF election) will only be available if our Common Shares are treated as regularly traded on a qualified exchange or other market within the meaning of the applicable U.S. Treasury Regulations. Since we intend to delist our Common Shares prior to March 31, 2020, we expect that our Common Shares will not be treated as regularly traded on a qualified exchange or other market during 2020 and therefore, a mark-to-market election generally would not be available in 2020. In addition, a U.S. holder of our Common Shares will technically not be permitted to make a mark-to-market election with respect to a Subsidiary PFIC.

During any taxable year in which the Company or any Subsidiary PFIC is treated as a PFIC with respect to a U.S. holder of our Common Shares, that holder generally must file IRS Form 8621.

The rules regarding PFICs, including the QEF election and mark-to-market election, are complex. Holders of our Common Shares should consult their tax advisors regarding the application of the PFIC rules to their particular circumstances.

Legislative and regulatory action by the U.S. Congress could materially and adversely affect the Company.

The Company's tax position could be adversely impacted by changes in tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof. Legislative action may be taken by the U.S. Congress which, if ultimately enacted, could, adversely affect the results of our operations and financial condition and could have a material adverse effect on our business, financial condition or run-off performance.

Dividends paid in respect of our Common Shares will no longer be eligible for the preferential tax rate applicable to "qualified dividend income" received by certain non-corporate U.S. shareholders after we delist our Common Shares from the New York Stock Exchange.

Generally, dividends paid in respect of stock of a foreign corporation that is not classified as a PFIC for the taxable year in which the dividend is paid, or the preceding taxable year, are eligible for the preferential tax rate applicable to "qualified dividend income" received by certain non-corporate U.S. shareholders if such stock is readily tradable on an established securities market in the United States. After we delist our Common Shares, such shares will no longer be readily tradable on the New York Stock Exchange, and any dividends paid in respect thereof will no longer be eligible for such preferential tax rate.

U.S. holders of our Common Shares may not be able to recognize a loss for U.S. federal income tax purposes until they receive a final distribution from us.

Subject to the PFIC rules discussed above, as a result of our winding-up and liquidation, for U.S. federal income tax purposes, U.S. holders of our Common Shares generally will recognize gain or loss equal to the difference between (i) the sum of the amount of cash and the fair market value (determined at the time of the distribution) of property, if any, distributed to them and (ii) their adjusted tax basis in our Common Shares. Such gain or loss generally will be computed on a per-share basis. If a U.S. holder acquired our Common Shares at different prices or at different times, the amount that such shareholder receives on each liquidating distribution will be allocated to each different block of our Common Shares based on the number of shares in each block. Within each block, a cost recovery approach will generally be applied, and a U.S. holder's full tax basis of a block will generally be recovered before any gain is recognized with respect to it. Liquidating distributions pursuant to the winding-up may occur at various times and in more than one tax year. Any loss generally will be recognized by a U.S. holder only in the tax year in which such shareholder receives our final liquidating distribution, and then only if the aggregate value of all liquidating distributions with respect to each block of our Common Shares held by such shareholder is less than the shareholder's adjusted tax basis for such block of our Common Shares. Holders of our Common Shares are urged to consult with their own tax advisors as to the specific tax consequences to them of our winding-up and liquidation.

The tax treatment of any liquidating distribution may vary from shareholder to shareholder.

You should consult your own tax advisor for tax advice in connection with the winding-up and liquidation. We have not requested a ruling from the U.S. Internal Revenue Service or any other tax authority with respect to the anticipated tax consequences of our winding-up and liquidation, and we will not seek an opinion of counsel with respect to the anticipated tax consequences of any liquidating distributions. Tax considerations applicable to particular shareholders may vary with and be contingent on the shareholder's individual circumstances.

The Organisation for Economic Co-operation and Development ("OECD") and the European Union ("EU") are considering measures that might increase our taxes and reduce our net income.

The OECD has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax practices. In particular, as a result of the Base Erosion and Profit Shifting ("BEPS") project, the OECD and the G20 delivered a package of policies that will allow governments to address the gaps in the international tax system. The BEPS package included four new minimum standards which included the commitment to (i) address harmful tax practices; (ii) to prevent tax treaty shopping; (iii) to ensure country-by-country reporting; and (iv) to improve the effectiveness of cross-border tax dispute resolution.

Bermuda has not been listed in the OECD's periodic progression reports as an uncooperative tax haven jurisdiction because it had previously committed to eliminate harmful tax practices and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. Bermuda was reported as being largely compliant with the OECD's international tax standards on transparency and exchange of information in the OECD's 2016 Tax Transparency Report on Progress. Bermuda set up its Tax Information Reporting Portal in June 2017. Other "largely compliant" jurisdictions include Germany, the United Kingdom and the United States. In 2017 Bermuda issued its common reporting standard regulations and country-by-country reporting regulations. Further, in February 2020, Bermuda was returned to EU's 'white list' of fully cooperative tax jurisdictions. Although Bermuda is now on the list of fully cooperative tax jurisdictions, further measures are being considered by the OECD. These include establishing a global minimum rate of taxation for multinational companies, which proposal is at the end of its consultation phase. We will need to monitor and assess these proposals.

In addition, on July 12, 2016 Council Directive 2016/1164/EU ("ATAD") was adopted which laid down rules against tax avoidance practices that directly affect the functions of the internal market. Member States were required to implement ATAD into domestic law by January 1, 2019 (except in relation to the exit tax rule and the interest restriction rules which in certain circumstances need not be implemented until January 1, 2020 and 2024 respectively). In October 2016 the EU Commission presented its corporate tax reform package in which the Commission proposed that the provisions of the ATAD dealing with hybrid mismatches should be extended to hybrid mismatches with third countries and on May 29, 2017 Council Directive 2017/952/EU ("ATAD II") was adopted. Member States were required to implement ATAD II into domestic law by December 31, 2019.

We are currently not able to provide a definitive view on whether any changes arising from any proposals introduced in connection with the possible new OECD and EU measures will subject us to additional taxes or otherwise affect our operations.

Item 1B. Unresolved Staff Comments

As of the date of this report, we had no unresolved comments from the SEC regarding our periodic or current reports under the Exchange Act.

Item 2. Properties

The Company leases office space from Sompo International in Pembroke, Bermuda, through the Administrative Services Agreement.

Item 3. Legal Proceedings

Blue Capital Re, pursuant to the BW Retrocessional Agreement, previously provided for a reinsurance recovery through its participation in an Industry Loss Warranty protection purchased by Blue Water Re. The counterparty to the Industry Loss Warranty disputed the claim for the recovery, which was based upon the size of an insured industry loss calculated based upon third-party data.

In June 2018, Blue Capital Re ILS, together with two other vehicles managed by the Manager, commenced legal proceedings against certain parties relating to the purchase by Blue Capital Re ILS of a parametric insurance product called an Industry Parametric Protection that provided coverage if the sustained wind speed during a hurricane or tropical storm exceeded a pre-selected trigger.

On February 25, 2019, the parties involved in the disputes described above reached an agreement to resolve all matters and withdraw the pending claims. The impact of the settlement was considered in the determination of recording the Company's best estimate of loss and LAE reserves as of December 31, 2018.

In addition to the disputes described above, Blue Capital Re, as a reinsurer, is subject to litigation and arbitration proceedings in the normal course of its business. Such proceedings often involve reinsurance contract disputes which are typical for the reinsurance industry. Blue Capital Re's estimates of possible losses incurred in connection with such legal proceedings are provided for as "changes in liquidation value of loss and loss adjustment expense reserves" on the Consolidated Statement of Changes in Net Assets, and "loss and loss adjustment expenses" on its Consolidated Statements of Income (Loss) and Comprehensive Income (Loss), and are included within "loss and loss adjustment expense reserves" on its Consolidated Statement of Net Assets in Liquidation and Consolidated Balance Sheet. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our run-off performance, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

Our Common Shares are listed on the New York Stock Exchange under the symbol BCRH and the Bermuda Stock Exchange under the symbol BCRH.BH.

Registered Holders of Common Shares

As of February 26, 2020, we had 11 registered holders of Common Shares.

Dividends Declared on Common Shares

During 2019 we declared and paid regular quarterly dividends of \$0.15 per Common Share during each of the first two quarters. As part of our plan to run-off our liabilities and return capital to shareholders, we declared and paid a special distribution of \$1.51 per share during the third quarter, and \$0.57 per share during the fourth quarter. During 2018 we declared and paid quarterly dividends of \$0.15 per Common Share during each of the first three quarters. The Company did not pay a special dividend with respect to 2018 as a result of the net loss recorded for the year. The aggregate dollar value of all dividends and special distributions declared with respect to 2019 and 2018 was \$20.9 million and \$7.9 million, respectively. See "Overview" contained in Item 7 herein.

There are restrictions on the payment of dividends to the Company from its regulated operating companies as described under "Regulation and Capital Requirements." Any future determination to pay special distributions to holders of Common Shares and RSUs will, however, be at the discretion of the Board and will be dependent upon many factors, including: (i) our financial condition, liquidity, run-off performance (including our ability to generate cash flow in excess of our expenses) and capital requirements; (ii) general business conditions, (iii) legal, tax and regulatory limitations; (iv) contractual prohibitions and other restrictions; (v) regulatory approval of Blue Capital Re's dividend payments to the Company; and (vi) any other factors that the Board deems relevant.

In light of the Company's decision to enter run-off and return capital to its Shareholders, on October 25 2019, the Bermuda Monetary Authority ("BMA") amended the license of Blue Capital Re to require Blue Capital Re to obtain the written approval of the BMA prior to the declaration and/or payment of any dividends and/or the making of any capital contributions to Blue Capital Re's parent, shareholders or affiliates. Accordingly, Blue Capital Re will be obligated to seek the BMA's advance approval in order to provide the Company with the funds required for each distribution to the Company's shareholders in connection with the run-off of the Company. To the extent Blue Capital Re is unable to obtain the BMA's approval, distributions to the Company's shareholders may be prevented or delayed until such time as Blue Capital Re receives the BMA's approval.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information, as of December 31, 2019, with respect to our equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (3) (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by shareholders (1)	27,270	—	35,448

(1) The Company's 2013 Long-Term Incentive Plan (the "2013 LTIP"), which was adopted by the Board on September 27, 2013, permits the issuance of up to one percent of the aggregate Common Shares outstanding (at the time of grant) to the Company's directors, future employees and consultants.

Incentive awards that may be granted under the 2013 LTIP include restricted share units ("RSUs"), restricted Common Shares, incentive share options (on a limited basis), non-qualified share options, share appreciation rights, deferred share units, performance compensation awards, performance units, cash incentive awards and other equity-based and equity-related awards.

As of December 31, 2019, there were 27,270 RSUs outstanding under the 2013 LTIP. These RSUs were granted to our directors in 2019, 2018 and 2017 and vest in three equal annual installments based on continuous service, payable in Common Shares at the time of vesting.

As the Company executes its plan of run-off, consistent with the terms of the 2013 LTIP, management expects all RSUs in issue to vest in the future, either naturally in the course of the standard vesting period or upon any of the holders' services as a director being terminated as part of the plan of run-off.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Common Shares

The Company did not repurchase any Common Shares during the three month period ended December 31, 2019.

Item 6. Selected Financial Data

Not applicable.

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

General

The following is a discussion and analysis of our results of operations for the seven months ended July 31, 2019 and the year ended December 31, 2018, our plan of run-off subsequent to July 31, 2019 and our financial condition as of December 31, 2019 and 2018. This discussion and analysis should be read in conjunction with the audited consolidated financial statements and related notes thereto included elsewhere in this report.

This discussion contains forward-looking statements that are not historical facts, including statements about our beliefs and expectations. These statements are based upon current plans, estimates and projections. Our actual results may differ materially from those projected in these forward-looking statements as a result of various factors. See "*Forward Looking Statements*" appearing at the beginning of this report and "*Risk Factors*" contained in Item 1A herein.

Overview

We are a Bermuda exempted limited liability company which offered collateralized reinsurance in the property catastrophe market. Our principal objective was to maximize the expected total return for our shareholders, primarily through the payment of dividends, by underwriting a diversified portfolio of short-tail reinsurance contracts and investing in insurance-linked securities with what we believed to be attractive risk and return characteristics. We provided our shareholders with the opportunity to own an alternative asset class whose returns we believe have historically been largely uncorrelated to those of other asset classes, such as global equities, bonds and hedge funds.

On July 25, 2019, after considering strategic alternatives, the Company announced a plan to cease active operations and pursue an orderly run-off of its liabilities and in-force portfolio and return capital to shareholders. As and when capital becomes available after settlement of existing liabilities and expenses and receipt of any necessary regulatory approvals, the Company expects to declare special distributions to shareholders.

During the seven months ended July 31, 2019, we recorded a net income of \$1.7 million, compared to a net loss of \$28.6 million in the year ended December 31, 2018.

Our 2019 results were impacted by significantly lower premium income as compared to the prior period, due to a smaller available capital base which limited deployment in the 2019 renewal seasons together with a shorter period of account. In addition, the Company did not write any business in the key June renewal period in the current year while it was considering strategic alternatives. In 2019, we incurred significantly lower loss and loss adjustment expenses compared to those reported a year ago which were elevated due to an increase in estimated losses related to Hurricane Irma. During the January 1, 2019 renewal period we maintained our close partnership with Sompo International and deployed all of our available capital into quota share contract business with attractive risk adjusted return potential.

We declared and paid regular dividends of \$0.15 per Common Share and RSU in the first two quarters of 2019, and \$0.30 per Common Share and RSU in the first three quarters of 2018.

Review of Orderly Run-Off

As part of its plan to run-off and return capital to its shareholders, the Company declared and paid special distributions of \$1.51 per share and \$0.57 per share during the third and fourth quarters of 2019, respectively. The aggregate dollar value of all dividends and special distributions declared and paid with respect to 2019, totaled \$20.9 million.

In the five month period ended December 31, 2019, our results reflect the net earnings associated with the completion of the final retrocessional quota share treaty entered into with Sompo International (the "Sompo Quota Share Agreement") together with minor premium adjustments from legacy business. In the five month period ended December 31, 2019, we recognized \$4.8 million in premium earnings net of acquisition expense from the Sompo Quota Share Agreement and incurred loss and LAE in establishing estimated loss reserves totaling \$4.6 million principally driven by losses from Typhoon Hagibis and Typhoon Faxai which both made landfall in Japan together with provisions for attritional losses. In addition, we recognized \$2.0 million of net adverse loss and LAE reserve development in the run-off period on legacy business, primarily driven by a

deterioration in losses incurred related to 2017 catastrophe events Hurricane Irma, and to a lesser extent Hurricane Maria, as well as deterioration in losses incurred related to Typhoon Jebi, which occurred in 2018, partially offset by favorable development related to the 2018 California Wildfires.

Net Assets in Liquidation as at December 31, 2019 of \$67.3 million include a negative liquidation valuation adjustment of \$2.1 million as an estimate of future cashflows expected from revenues and expenses. This adjustment includes management's estimate of future investment income to be earned of \$0.8 million, less estimated future general and administrative expenses of \$2.9 million. The Company does not expect to incur significant costs related specifically to the disposal of its assets since they are predominantly comprised of highly liquid collateral balances in the form of cash and cash equivalents under the caption 'funds held by ceding companies' on the statement of net assets (liquidation basis).

Review of Consolidated Results of Operations

Prior to ceasing active operations we operated as a single business segment through the Company and its wholly-owned subsidiaries: (i) Blue Capital Re, a Bermuda exempted limited liability company registered as a Class 3A insurer in Bermuda, which offered collateralized reinsurance; and (ii) Blue Capital Re ILS, a Bermuda exempted limited liability company which conducted hedging and other investment activities in support of Blue Capital Re's operations.

In light of the adoption of the liquidation basis of accounting as of July 31, 2019 and the plan of run-off, the results of operations for periods after July 31, 2019 are not comparable to prior year periods.

Our consolidated results of operations for the seven months ended July 31, 2019 and year ended December 31, 2018 were as follows:

(\$ in millions)	Seven Months Ended July 31, 2019	Year Ended December 31, 2018
Revenues		
Reinsurance premiums written	\$ 11.1	\$ 33.2
Change in net unearned reinsurance premiums	0.8	0.2
Net reinsurance premiums earned	11.9	33.4
Net gain from derivative instruments	—	—
Net investment income	1.8	2.0
Total revenues	13.7	35.4
Expenses		
<i>Underwriting expenses:</i>		
Loss and LAE - current year	2.3	31.5
Loss and LAE - prior year	3.4	19.0
Loss and LAE	5.7	50.5
Reinsurance acquisition costs	3.9	9.0
General and administrative expenses	2.4	4.5
Total expenses	12.0	64.0
Net income (loss) and comprehensive income (loss)	\$ 1.7	\$ (28.6)
Loss and LAE ratio - current year	29.1%	94.3%
Loss and LAE ratio - prior year	18.0%	56.9%
Loss and LAE ratio	47.1%	151.2%
Acquisition cost ratio	32.9%	26.9%
General and administrative expense ratio	20.5%	13.5%
GAAP combined ratio	100.5%	191.6%

Reinsurance Premiums Written and Earned

During the seven months ended July 31, 2019 and the year ended December 31, 2018 we wrote \$11.1 million and \$33.2 million of reinsurance premiums, respectively, all of which represented indemnity reinsurance contracts relating to property catastrophe risks. The decrease in reinsurance premiums written during the current period of 2019, versus that of the comparable 2018 period was due to the current period reflecting seven months of activity, as the company adopted the

liquidation basis of accounting on July 31, 2019. In addition, the decrease is driven by a smaller capital base available for deployment to underwriting activity at January 1 and a subsequent curtailment of underwriting activity.

During the seven months ended July 31, 2019 and the year ended December 31, 2018, we earned \$11.9 million and \$33.4 million of reinsurance premiums, respectively. Our reinsurance premiums earned are primarily a function of the amount and timing of reinsurance premiums previously written.

Our reinsurance premiums written and earned during the seven months ended July 31, 2019 and the year ended December 31, 2018 included \$0.4 million and \$4.6 million, respectively of reinstatement premiums.

Blue Capital sought to diversify its exposure across geographic zones around the world in order to obtain a prudent spread of risk. The spread of these exposures was also a function of market conditions and opportunities.

The following table sets forth a breakdown of Blue Capital's gross reinsurance premiums written by geographic area of risks insured for the seven month period ended July 31, 2019 and the year ended December 31, 2018:

(\$ in millions)	Seven Months Ended July 31, 2019		Year Ended December 31, 2018	
Worldwide ⁽¹⁾	\$ 0.8	7%	\$ 6.7	20%
USA:				
Nationwide	4.7	42%	13.5	40%
Florida	0.1	1%	4.2	13%
Gulf region	—	—%	0.5	2%
California	0.1	1%	0.3	1%
Midwest region and other	—	—%	0.5	2%
Northeast	—	—%	0.1	—%
Asia	1.0	9%	1.6	5%
Australia	0.9	8%	1.1	3%
Canada	0.2	2%	0.4	1%
Europe	3.3	30%	3.7	11%
Worldwide, excluding U.S. ⁽²⁾	—	—%	0.6	2%
Total gross premiums written	<u>\$ 11.1</u>	<u>100%</u>	<u>\$ 33.2</u>	<u>100%</u>

(1) "Worldwide" comprises reinsurance contracts that cover risks in more than one geographic area and do not specifically exclude the U.S.

(2) "Worldwide, excluding U.S." comprises reinsurance contracts that cover risks in more than one geographic area but specifically exclude the U.S.

Loss and LAE

The following table summarizes the components of our consolidated loss and LAE incurred and our loss and LAE ratios for the seven month period ended July 31, 2019 and the year ended December 31, 2018:

(\$ in millions)	Seven Months Ended July 31, 2019	Year Ended December 31, 2018
Loss and LAE incurred - current year	\$ 2.3	\$ 31.5
Loss and LAE incurred - prior year	3.4	19.0
Total loss and LAE incurred	<u>\$ 5.7</u>	<u>\$ 50.5</u>
Loss and LAE ratio- current year	<u>29.1%</u>	94.3%
Loss and LAE ratio- prior year	<u>18.0%</u>	56.9%
Loss and LAE ratio	<u>47.1%</u>	<u>151.2%</u>

During the seven months ended July 31, 2019, we established \$2.3 million of losses and loss adjustment expense for the current year, nearly all of which constituted IBNR reserves. There were no individually significant loss events that impacted us during the seven month period ended July 31, 2019. In addition, during the seven months ended July 31, 2019, we recognized \$3.4 million of net adverse loss and LAE reserve development primarily driven by a deterioration in losses incurred related to Typhoon Jebi.

During 2018, we incurred current year losses and loss adjustment expenses of \$31.5 million primarily driven by the catastrophe events summarized in the following table together with reported attritional losses and incurred but not reported ("IBNR") reserves. The catastrophe event losses shown are net of recoveries from retrocessional protection purchased by Blue Water Re totaling \$19.5 million. In addition, during the year ended December 31, 2018, we recognized \$19.0 million of net adverse loss and LAE reserve development for estimated losses incurred related to 2017 catastrophe events, primarily Hurricane Irma, which made landfall in the U.S. in September 2017 following the receipt of new or revised loss information from our cedants.

Event Date	Event (U.S. dollars in millions)	Loss and loss adjustment expenses Year Ended December 31, 2018
August 2018	Typhoon Jebi	\$ 0.8
August to December 2018	California Wildfires	1.6
September 2018	Hurricane Florence	1.5
September 2018	Typhoon Trami	0.4
October 2018	Hurricane Michael	15.5
August to December 2018	Aggregate & Second Event Losses Triggered By Multiple Catastrophe Events	8.1
		<u>\$ 27.9</u>

Reinsurance Acquisition Costs

Our reinsurance acquisition costs, which we normally recognize over the underlying risk period of the related contracts, include commissions, brokerage costs, premium taxes and excise taxes, in each case, when applicable, and are normally a set percentage of gross premiums written. Our reinsurance acquisition costs may also include profit commissions, which are paid to ceding companies in the event of favorable loss experience.

(\$ in millions)	Seven Months Ended July 31, 2019	Year Ended December 31, 2018
Commissions, brokerage costs, fronting fees and other	\$ 3.9	\$ 8.8
Profit commissions	—	0.2
Total reinsurance acquisition costs	<u>\$ 3.9</u>	<u>\$ 9.0</u>
Reinsurance acquisition cost ratio	32.9%	26.9%

Our reinsurance acquisition costs relating to commissions, brokerage costs, fronting fees and related costs for the seven months ended July 31, 2019, reduced compared to the costs incurred during the 2018 year due to the lower volume of business written. The increase in the reinsurance acquisition ratio compared to 2018 is mainly due to the higher concentration of quota share business which incurs higher override commissions.

General and Administrative Expenses

The following table summarizes our general and administrative expenses for the seven month period ended July 31, 2019 and the year ended December 31, 2018.

(\$ in millions)	Seven Month Period Ended	
	July 31,	Year Ended December 31,
	2019	2018
Investment Management Agreement fees	\$ 0.8	\$ 1.8
Administrative Services Agreement fees	0.3	0.6
Public company expenses	1.3	2.1
Total general and administrative expenses	\$ 2.4	\$ 4.5
General and administrative expense ratio	20.5%	13.5%

See Note 9 of the Notes to Consolidated Financial Statements for detailed information regarding the nature of the expenses that we incur pursuant to the Investment Management Agreement, the Underwriting and Insurance Management Agreement and the Administrative Services Agreement.

The expenses we have incurred pursuant to the Investment Management Agreement and the Administrative Services Agreement has decreased in the seven months ended July 31, 2019 as compared to the year ended December 31, 2018, due to the lower equity base on which the management fee is determined together with the shorter period.

Our public company expenses incurred during the periods presented consisted of director fees, corporate insurance premiums, audit fees, share-based compensation and other expenses associated with being a publicly traded company. The decrease in these expenses during the current period of 2019 versus that of the 2018 period was due to the current period reflecting seven months of activity compared to a full year in 2018.

Income Taxes

We were not subject to income taxes in any jurisdiction during the periods presented.

Liquidity and Capital Resources**Liquidity**

The Company has no operations of its own and relies on dividends and distributions from its operating subsidiaries to pay its expenses and dividends to its shareholders and to repay any outstanding borrowings under the 2016 Credit Facility. There are restrictions imposed by the BMA on the payment of dividends to the Company from its operating subsidiaries as described below and in Note 8 of the Notes to Consolidated Financial Statements.

The ability of Blue Capital Re to pay dividends is dependent on its ability to meet the requirements of applicable Bermuda law and regulations. Under Bermuda law, Blue Capital Re may not declare or pay a dividend to the Company if there are reasonable grounds for believing that Blue Capital Re is, or would after the payment be, unable to pay its liabilities as they become due, or the realizable value of Blue Capital Re's assets would thereby be less than the aggregate of its liabilities and its issue share capital and share premium accounts. Further, Blue Capital Re, as a regulated insurance company in Bermuda, is subject to additional regulatory restrictions on the payment of dividends or distributions. In light of the Company's decision to enter run-off and return capital to its shareholders, on October 25, 2019, the BMA amended the license of Blue Capital Re to require Blue Capital Re to obtain the written approval of the BMA prior to the declaration and/or payment of any dividends and/or the making of any capital contributions to Blue Capital Re's parent, shareholders or affiliates. Accordingly, Blue Capital Re will be obligated to seek the BMA's advance approval in order to provide the Company with the funds required for each distribution to the Company's shareholders in connection with the run off of the Company. To the extent Blue Capital Re is unable to obtain the BMA's approval, distributions to the Company's shareholders may be prevented or delayed until such time as Blue Capital Re receives the BMA's approval.

The primary sources of cash for Blue Capital Re are premium collections, releases of collateral from trust accounts and investment income. The primary uses of cash for the Blue Capital Re are payments of loss and LAE reserves, reinsurance acquisition costs, general and administrative expenses, and dividends or distributions.

As of December 31, 2019 and 2018, the Company held \$0.6 million and \$2.2 million of cash and cash equivalents which represented unencumbered cash on hand.

On May 6, 2016, the Company entered into a credit facility (the "2016 Credit Facility") with Endurance Investment Holdings Ltd. (the "Lender"), a wholly-owned subsidiary of Sampo International. The 2016 Credit Facility provided the Company with an unsecured \$20.0 million revolving credit facility for working capital and general corporate purposes. Borrowings under the 2016 Credit Facility incurred interest, set at the time of the borrowing, at a rate equal to the applicable LIBOR rate plus 150 basis points. A one-time fee of \$20,000 was paid to the Lender in connection with establishing the 2016 Credit Facility. The 2016 Credit Facility was amended on July 31, 2018 to extend its expiry to September 30, 2020 under identical terms. On December 31, 2018, Endurance Investment Holdings Ltd. was merged into its parent, Endurance Specialty Insurance Ltd. and the obligations of the Lender were assumed by Endurance Specialty Insurance Ltd. On July 30, 2019, the parties terminated the 2016 Credit Facility in light of the Company's plan to cease active operations.

With respect to the Company's outstanding borrowings of \$4.0 million at December 31, 2018, \$3.0 million was repaid on April 8, 2019 and while outstanding, was subject to annual interest rates ranging between 3.91% and 4.15% and \$1.0 million was repaid on April 18, 2019, and was subject to annual interest rates ranging between 4.07% and 4.11%.

The 2016 Credit Facility contained covenants that limited the Company's ability, among other things, to grant liens on its assets, sell assets, merge or consolidate, or incur debt. Had the Company failed to comply with any of these covenants, the Lender could have revoked the facility and exercised remedies against the Company. In addition, in the event of a default in the performance of any of the agreements or covenants under certain management agreements with the Manager by the Company, the Lender had the right to terminate the 2016 Credit Facility.

During the seven month period ended July 31, 2019, we declared (i) a first quarter 2019 regular dividend of \$0.15 per Common Share and RSU which was paid on April 15, 2019; and (ii) a second quarter 2019 regular dividend of \$0.15 per Common Share and RSU, which was paid on July 15, 2019. The total dollar amount of dividends paid during the seven month period ended July 31, 2019 was \$2.6 million. In accordance with our plan to cease active operations and return capital to shareholders, on August 30, 2019 we declared a special distribution of \$1.51 per common share which was paid on September 30, 2019 to shareholders on record as of September 16, 2019. On November 22, 2019, we declared a special distribution of \$0.57 per common share which was paid on December 20, 2019 to shareholders on record as of December 6, 2019.

We intend to make further special distributions to shareholders from time to time pursuant to our plans to effect an orderly run-off of the Company. Any future determination to make distributions will remain at the discretion of the Board and will be dependent upon many factors, including: (i) our financial condition, liquidity, run-off performance (including our ability to generate cash flow in excess of our expenses) and capital requirements; (ii) general business conditions, (iii) legal, tax and regulatory limitations; (iv) contractual prohibitions and other restrictions; (v) regulatory approval of Blue Capital Re's dividend payments to the Company; and (vi) any other factors that the Board deems relevant. Subject to the PFIC rules discussed above under "Taxation Risks", for U.S. federal income tax purposes, it is expected that U.S. Holders (as defined below) of our Common Shares generally will recognize gain or loss equal to the difference between (i) the sum of the amount of cash and the fair market value (determined at the time of the distribution) of property, if any, distributed to them and (ii) their adjusted tax basis in our Common Shares. Such gain or loss generally will be computed on a per-share basis. Accordingly, if a U.S. Holder acquired our Common Shares at different prices or at different times, the amount that such shareholder receives on each liquidating distribution will be allocated to each different block of our Common Shares based on the number of shares in each block. Within each block, a cost recovery approach will generally be applied, and a U.S. Holder's full tax basis of a block will generally be recovered before any gain is recognized with respect to it. When a distribution is one in a series of distributions in complete liquidation, as is expected, these basis recovery rules will apply to the aggregate basis of all of the U.S. Holder's Common Shares, and any loss generally will be recognized by a U.S. Holder only in the tax year in which the shareholder receives our final liquidating distribution. For these purposes, a "U.S. Holder" is any beneficial owner of our Common Shares that, for U.S. federal income tax purposes, is (i) a citizen or individual resident of the United States; (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if such trust has validly elected to be treated as a United States person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more United States persons have the authority to control all of the substantial decisions of such trust. See "Risk Factors" contained in Item 1A herein. Holders of our Common Shares should consult their tax advisors regarding the tax consequences to them of the receipt of any distributions from us.

Capital Resources

Our total net assets in liquidation (formerly shareholders' equity) was \$67.3 million and \$90.7 million at December 31, 2019 and 2018, respectively. The decrease in our total net assets in liquidation was mostly attributable to the declaration of special distributions of \$13.3 million and \$5.0 million to holders of Common Shares and RSUs in the third and fourth quarter of 2019, respectively. It is unlikely that we will need to raise additional capital in the future following our decision to pursue an orderly run-off and we anticipate that our capital resources will be sufficient to meet all future obligations.

Collateral Requirements and Restrictions

Each of the reinsurance contracts that Blue Capital Re has written is required to be fully-collateralized by cash and cash equivalents or funds held by reinsurance companies. This collateral is not available to Blue Capital Re for any other purpose until the expiration of the applicable reinsurance contract (or, in the event of a covered loss, the resolution of such loss under the applicable contract). Due to buffer loss provisions in the treaties that the Company entered into, collateral associated with more recent loss affected treaties will remain encumbered for the contractual period, impacting the time it will take to run-off the Company.

Contractual Obligations and Commitments

The Company's contractual obligations as of December 31, 2019 are summarized as follows:

(\$ in millions)	Payments due by period		
	Total	Less than 1 year	1 - 3 years
Loss and loss adjustment expense reserves	\$ 34.5	\$ 16.6	\$ 17.9
Fees pursuant to Agreements with the Manager	1.4	1.0	0.4
Total	\$ 35.9	\$ 17.6	\$ 18.3

The table above illustrates the anticipated payment of loss and loss adjustment expenses in line with the Company's plan to complete the liquidation of its net assets and return of capital to shareholders by the end of 2021, and does not reflect the natural run-off of the liabilities on a going concern basis. The Company expects to fund the obligations noted in the table above from releases of cash from funds held by ceding companies.

The Company and its operating subsidiaries have entered into the Investment Management Agreement, the Underwriting and Insurance Management Agreement and the Administrative Services Agreement with the Manager.

A summary of our obligations pursuant to each of these agreements follows:

Investment Management Agreement. Pursuant to the Investment Management Agreement, we are obligated to pay the Manager a management fee (the "Management Fee") equal to 1.5% of our average total shareholders' equity (as defined in the Investment Management Agreement) per annum, calculated and payable in arrears in cash each quarter (or part thereof) that the Investment Management Agreement is in effect.

As of December 31, 2019, our total shareholders' equity (now net assets in liquidation) was \$67.3 million. As our net assets in liquidation decline as we return capital to shareholders over the period of run-off, we would expect to pay the Manager a decreasing Management Fee over time. Within our liquidation basis of accounting estimates as of December 31, 2019, we expect to pay a cumulative Management Fee of approximately \$0.6 million over the course of the period of run-off pursuant to this agreement.

Underwriting and Insurance Management Agreement. Pursuant to the Underwriting and Insurance Management Agreement, we are obligated to pay the Manager a performance fee (the "Performance Fee") which is equal to 20% of our pre-tax, pre-Performance Fee income over a hurdle amount (as defined in the Underwriting and Insurance Management Agreement) and payable in arrears in cash each quarter (or part thereof) that such agreement is in effect.

As a result of the net losses recorded in the years ended December 31, 2018 and 2017, the company did not incur a Performance fee in 2019, and management estimates that the Company will not pay any future Performance Fee due to the rolling three year high water mark provision and the decision to pursue an orderly run-off of the Company.

Administrative Services Agreement. Pursuant to the Administrative Services Agreement, we are obligated to reimburse the Manager for various fees, expenses and other costs in connection with the services provided under the terms of this agreement, including the services of our Chief Financial Officer, modeling software licenses and finance, legal and administrative support.

We currently expect to pay the Manager approximately \$0.8 million over the course of the period of run-off pursuant to this agreement.

Certain Termination Provisions Associated with the Foregoing Agreements. We may not terminate the Investment Management Agreement, the Underwriting and Insurance Management Agreement or the Administrative Services Agreement other than in three year intervals, whether or not the Manager's performance results are satisfactory. Upon any termination or non-renewal of either of the Investment Management Agreement or the Underwriting and Insurance Management Agreement (other than for a material breach by, or the insolvency of, the Manager), we must pay a one-time termination fee to the Manager equal to 5% of our GAAP shareholders' equity, calculated as of the most recently completed quarter prior to the date of termination.

As of December 31, 2019, if we were to terminate either the Investment Management Agreement or the Underwriting and Insurance Management Agreement, we would be required to pay the Manager a one-time termination fee of approximately \$3.4 million. The Company does not expect to incur any termination fees as a result of the decision to pursue an orderly run-off and return capital to shareholders.

Neither the Company nor its operating subsidiaries had any commitments for operating leases or capital expenditures at December 31, 2019 and neither the Company nor its operating subsidiaries expect any material expenditures of this type during the next 12 months or for the foreseeable future.

Regulation and Capital Requirements

The Company and its subsidiaries are subject to regulation and capital requirements established by supervisors in multiple jurisdictions. See Note 8 of the Notes to Consolidated Financial Statements for detailed information concerning our regulatory and capital requirements.

Off-Balance Sheet Arrangements

As of December 31, 2019, we were not subject to any off-balance sheet arrangements that we believe are material to our investors.

Cash Flows

(\$ in millions)	Seven Months Ended July 31, 2019	Year Ended December 31, 2018
Net cash provided by operations	\$ 5.7	\$ 0.1
Net cash used in financing activities	(6.6)	(3.9)
Net decrease in cash and cash equivalents	(0.9)	(3.8)
Cash and cash equivalents, beginning of period	2.2	6.0
Cash and cash equivalents, end of period	\$ 1.3	\$ 2.2

We experienced a net decrease of \$0.9 million in our cash and cash equivalents during the seven months ended July 31, 2019 and a net decrease of \$3.8 million during the year ended December 31, 2018.

During the seven months ended July 31, 2019, releases of cash from funds held by ceding companies partially offset by payments of general and administrative expenses was the primary contributor to the cash from operating activities of \$5.7 million. In addition, we also paid \$2.6 million in dividends to holders of Common Shares and RSUs, and repaid outstanding debt of \$4.0 million.

During the year ended December 31, 2018, our net releases of cash and cash equivalents from trusts established by Blue Water Re and cash inflows from other operating activities exceeded our payments of general and administrative expenses by \$0.1 million. We also paid \$7.9 million in dividends to holders of Common Shares and RSUs partially offset by borrowings under the 2016 Credit Facility of \$4.0 million.

Repatriation of Cash

We do not have any operations outside of Bermuda and, accordingly, we do not expect to repatriate any cash or other assets from any other jurisdiction.

Summary of Critical Accounting Policies and Estimates

Our Consolidated Financial Statements have been prepared in accordance with GAAP. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported and disclosed amounts of our assets and liabilities as of the balance sheet dates and the reported amounts of our revenues and expenses during the reporting periods.

As a result of the decision to pursue an orderly run-off and return capital to shareholders, the Company's basis of accounting transitioned from going concern basis of accounting to the liquidation basis of accounting in accordance with GAAP, effective July 31, 2019. The liquidation basis of accounting requires that certain of our assets are based on estimates of future revenue streams and certain of our liabilities are based on estimates of losses and expenses yet to be incurred.

Prior to the transition to the liquidation basis of accounting, we believe the items that required the most subjective and complex estimates were: (i) our loss and LAE reserves; and (ii) our written and earned reinsurance premiums. Our accounting policies for these items are of critical importance to our Consolidated Financial Statements.

Loss and LAE Reserves

Our loss and LAE reserves represent our best estimate of future amounts needed to pay our claims and related expenses (such as claim adjusters' fees and litigation expenses) for insured losses that have occurred. The process of estimating these reserves involves a considerable degree of judgment, and our estimates as of any given date are inherently uncertain. The Manager provides us with assistance in establishing, maintaining and settling our loss and LAE reserves.

Estimating loss and LAE reserves requires us to make assumptions regarding reporting and development patterns, frequency and severity trends, claims settlement practices, potential changes in legal environments, inflation, loss amplification and other factors. These estimates and judgments are based on numerous considerations and are revised as: (i) we receive changes in loss amounts reported by ceding companies and brokers; (ii) we obtain additional information, experience or other data; (iii) new or improved methodologies and/or relevant data sources are utilized; or (iv) laws change.

The timeliness of loss reporting can be affected by such factors as the nature of the event causing the loss, the location of the loss and where our exposure falls within the cedant's overall reinsurance program. Our reserving process is highly dependent on the loss information we receive from ceding companies and brokers. Furthermore, during the loss settlement period, which may last several years, additional facts regarding individual claims and trends often will become known, and case law may change, all of which can affect our ultimate expected losses.

Our loss and LAE reserves are comprised of case reserves, which are based on claims that have been reported to us, and IBNR reserves, which represent a provision for claims that have been incurred but not yet reported, as well as future loss development on losses already reported, in excess of the case reserves.

Our case reserve estimates are initially determined on the basis of loss reports we receive from our cedants. Our IBNR reserve estimates are determined using various actuarial methods as well as a combination of historical insurance industry loss experience, estimates of pricing adequacy trends and our professional judgment. The process we use to estimate our IBNR reserves involves projecting our estimated ultimate loss and LAE reserves and then subtracting paid claims and case reserves as notified by the ceding company, to arrive at our IBNR reserves. For the quota share business assumed by the Company, IBNR is generally determined using a variety of loss reserving methods based upon loss reporting patterns, initial expected loss ratios, information provided by ceding companies and brokers, and judgment.

Most of our direct and fronted reinsurance contracts are comprised of business that has both a low frequency of claims occurrence and a high potential severity of loss, primarily from claims arising from natural and 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 statistical calculations of a range of estimates surrounding the best point estimate of our loss and LAE reserves. Therefore, our reserving approach for these types of coverages is to estimate the ultimate cost associated with a single loss event rather than to analyze the historical development patterns of past losses as a means of estimating ultimate losses for an entire accident year. We estimate our reserves for these large events on a contract-by-contract basis by means of a review of policies with known or potential exposure to a particular loss event.

The two primary bases we use for estimating the ultimate loss associated with a large event are: (i) actual and precautionary claims advice received from the cedant; and (ii) the nature and extent of the impact the event is estimated to have on the industry as a whole and the affected underlying contracts. Immediately after a loss event, the estimated industry market loss is the primary driver of our ultimate loss from such event. In order to estimate the nature and extent of the event, we rely on output provided by commercially available catastrophe models, as well as proprietary models developed by Sampo International and utilized by the Manager. The exposure of each cedant potentially affected by the event is analyzed on the basis of this output. As the amount of information received from cedants increases during the period following an event, so does our reliance on this information.

While the approach we use in reserving for large events is applied with consistency, at any point in time the specific reserving assumptions may vary among contracts. The assumptions for a specific contract may depend upon the class of business, historical reporting patterns of the cedant (if any), whether or not the cedant provides an IBNR estimate, how much of the loss has been paid, the number of underlying claims still open and other factors. For example, the expected loss development for a contract with one percent of its claims still open would likely be less than for a contract with 50% of its claims still open.

To the extent we rely on industry data to aid us in our reserve estimates, there is a risk that the data may not match our risk profile or that the industry's overall reserving practices differ from our own and those of our cedants. In addition, reserving may prove to be especially difficult should a significant loss take place near the end of a reporting period, particularly if the loss involves a catastrophic event. These factors further contribute to the degree of uncertainty in our reserving process.

As a reinsurer, we rely on loss information reported to brokers by primary insurers who, in turn, must estimate their own losses at the policy level, often based on incomplete and changing information. The information we receive varies by cedant and may include paid losses, estimated case reserves and an estimated provision for IBNR reserves. Reserving practices and the quality of data reporting vary among ceding companies, which adds further uncertainty to the estimation of our ultimate losses. The nature and extent of information we receive from ceding companies and brokers also vary widely depending on the type of coverage, the contractual reporting terms (which are affected by market conditions and practices) and other factors. Due to the lack of standardization of the terms and conditions of reinsurance contracts, the wide variability of coverage provided to individual clients and the tendency of those coverages to change rapidly in response to market conditions, the ongoing economic impact of such uncertainties and inconsistencies cannot be reliably measured. Additional risks to us involved in the reporting of retrocessional contracts include varying reserving methodologies used by the original cedants and an additional reporting lag due to the time required for the retrocedant to aggregate its assumed losses before reporting them to us. Additionally, the number of contractual intermediaries are typically greater for retrocessional business than for insurance and reinsurance business, thereby further increasing the time lag and imprecision associated with loss reporting.

Since we rely on ceding company estimates of case and IBNR reserves in the process of establishing our own loss and LAE reserves, we maintain certain procedures designed to mitigate the risk that this information is incomplete or inaccurate. These procedures may include: (i) performing retrospective reviews regarding how the client's loss estimates held up for prior events; and (ii) holding discussions and meetings with the client and broker to ascertain further details and potential uncertainties impacting their estimates. We also utilize catastrophe model outputs and industry market share information to evaluate the reasonableness of reported losses, which are also compared to loss reports received from other cedants. These procedures are incorporated on an ongoing basis and are regularly evaluated and amended as market conditions, risk factors and unanticipated areas of exposure develop.

We do not expect to experience any significant claims processing backlogs, although such backlogs may occur following a major catastrophic event.

The uncertainties inherent in the reserving process, together with the potential for unforeseen developments, including changes in laws and the prevailing interpretation of policy terms, may result in our ultimate paid loss and LAE amounts being significantly greater or less than the loss and LAE reserves we initially established. Any adjustments to our loss and LAE reserves are reflected in our financial results during the period in which they are determined.

We have determined that our best estimates for our gross and net loss and LAE reserves at December 31, 2019 and 2018 were \$34.5 million and \$49.9 million respectively. The following table summarizes the composition of these reserves at December 31, 2019 and 2018:

(\$ in millions)	December 31,	
	2019	2018
Gross and net IBNR	\$ 9.3	\$ 25.1
Gross and net Case Reserves	25.2	24.8
Gross and net unpaid loss and LAE reserves	\$ 34.5	\$ 49.9

GAAP does not permit us to record or carry contingency reserves for catastrophe losses that are expected to occur in the future. Therefore, during periods in which significant catastrophe loss events occur, our underwriting results are likely to be adverse, and during periods in which significant catastrophe loss events do not occur, our underwriting results are likely to be favorable.

We believe that our reserves for loss and LAE are sufficient to cover losses that fall within the terms of our policies and agreements with our insured and reinsured customers on the basis of the methodologies used to estimate those reserves. There can be no assurance, however, that actual losses will not be less than or exceed our total established reserves.

Written and Earned Reinsurance Premiums

Prior to ceasing active operations, we wrote reinsurance contracts on both an excess-of-loss and a pro-rata basis. For excess-of-loss contracts, written premiums are typically based on the deposit or minimum premium specified in the reinsurance contract. For pro-rata contracts, written premiums are recognized based on estimates of ultimate premiums provided by either the ceding companies or the Manager.

All of our reinsurance contracts were typically written on a losses-occurring basis, which means that all loss events occurring during the period of the contract are covered, regardless of the inception dates of the underlying policies. Any loss events occurring after the expiration of a losses-occurring contract are not covered.

For reinsurance contracts which incorporated minimum premium amounts, we typically wrote the entire ultimate premium at inception, and earned the associated premium after the premium was written over the term of the contract. For reinsurance contracts which did not incorporate minimum premium amounts, we typically wrote the premium over the term of the contract, and earned the associated premium in the same periods that the premium was written.

Subsequent adjustments of written premium, based on reports of actual premium by the ceding companies, or revisions in estimates of ultimate premium, are recorded in the period in which they are determined. Such adjustments are generally determined after the associated risk periods have expired, in which case the premium adjustments are fully earned when written.

Some of our reinsurance contracts may include contract terms that require an automatic reinstatement of coverage in the event of a loss. Reinstatement premiums are fully earned or expensed as applicable when a triggering loss event occurs and losses are recorded. We record reinstatement premiums on a basis consistent with our estimates of losses and LAE. During the seven months ended July 31, 2019 and the year ended December 31, 2018, we recorded net written and earned reinstatement premiums totaling \$0.4 million and \$4.6 million, respectively.

We routinely review the creditworthiness of our cedants on the basis of our market knowledge, the cedant's current financial strength ratings, the timeliness of cedants' past payments and the status of current balances owing. Based on our reviews, we have determined that we did not require an allowance for uncollectible reinsurance premiums receivable as of 2019 and 2018.

Liquidation Basis of Accounting

Subsequent to the adoption of the liquidation basis of accounting, all assets are stated at their estimated liquidation value and liabilities, including estimated costs associated with implementing the run-off and liquidation of the Company, are stated at their estimated settlement amounts over the remaining estimated liquidation period. Prior to the expiry of all our reinsurance treaties, the liquidation value of the Company's in-force treaties was based on management's estimate of future earned premium net of acquisition expenses together with an estimate for expected loss and loss adjustment expense liabilities to be incurred associated

with those earned premiums. Additionally, the liquidation value of the Company's other assets and liabilities includes management's estimate of investment income to be generated from the expected collateral balances supporting our insurance liabilities over the estimated period of run-off and estimates for corporate expenses and management and administrative fees over the period.

The actual amounts realized for assets and settlement of liabilities and the actual costs of liquidation may differ materially from the estimated amounts.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data have been filed as a part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page 74 of this report.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended.

Management's Annual Report on Internal Control Over Financial Reporting

The management of Blue Capital Reinsurance Holdings Ltd. is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). This internal control provides monitoring mechanisms, and actions are taken to correct deficiencies identified.

There are inherent limitations in any internal control over financial reporting, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, controls may become inadequate or the degree of compliance with policies or procedures may deteriorate over time.

Management assessed the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on this assessment, management concluded that, as of December 31, 2019, the Company maintained effective internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the fourth quarter of 2019 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

None.

PART III**Item 10. Directors, Executive Officers and Corporate Governance****Directors**

(As of February 25, 2020)

The current members of the Board and terms of each class are set forth below:

Name	Age	Position	Director Since
Class A-term ending 2020			
Michael J. McGuire	47	Chairman, CEO	2015
John R. Weale	61	Director	2013
Class B-term ending 2021			
John V. Del Col	58	Director, Secretary	2017
D. Andrew Cook	57	Director	2013
Class C-term ending 2022			
Eric Lemieux	59	Lead Director	2013

Mr. McGuire currently serves as Chief Financial Officer of Sampo International and Mr. Del Col currently serves as Secretary and General Counsel of Sampo International, and as a result they may face conflicts of interest that may make it difficult for them to operate our business. See Item 13. "*Certain Relationships and Related Transactions and Director Independence*"

The following information presents the principal occupations, business experience, and recent business activities involving the Company and other affiliations of the directors:

Class A Directors, term expiring in 2020:

Michael J. McGuire. Mr. McGuire has been our Chairman since August 2015 and Chief Executive Officer since April 2017. He serves as Chief Financial Officer of Sampo International, a wholly-owned subsidiary of Sampo Holdings, Inc. Prior to assuming his role at Endurance Specialty Holdings Ltd., the predecessor to Sampo International ("Endurance Holdings"), in January 2006, Mr. McGuire led its external reporting, treasury and Sarbanes-Oxley compliance initiatives during 2003-2006. Prior to joining Endurance Holdings, Mr. McGuire was employed by Deloitte & Touche LLP ("Deloitte") where he spent over nine years working in a variety of audit and advisory roles in the United States, Bermuda and Europe. In his last role at Deloitte, Mr. McGuire served as a senior manager in Deloitte's merger and acquisition advisory practice, providing transaction accounting, structuring and due diligence services to private equity and strategic investors. Mr. McGuire is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants. We believe Mr. McGuire's qualifications to serve on the Board include his professional financial management and accounting experience of over 20 years in the accounting and reinsurance industries.

John R. Weale. Mr. Weale has been a director since August 2013. Until November 2011, Mr. Weale was Chief Financial Officer of Catalina Holdings (Bermuda) Ltd. ("Catalina Holdings"). Prior to his employment with Catalina Holdings, Mr. Weale spent over 13 years at IPCRe Limited and IPC Holdings, Ltd (collectively, "IPC"). At IPC, he served as Executive Vice President from July 2008 and Chief Financial Officer from June 1996, as well as interim President and Chief Executive Officer during 2009. Prior to IPC, he held various positions at American International Company, Limited, including Vice President-Insurance Management Services. Mr. Weale served as Chairman of the Board of Blue Capital Alternative Income Fund Limited from 2012 until July 2018. Mr. Weale has also served as Chairman of the Board and an audit committee member of Butterfield Money Market Fund Limited and Butterfield Liquid Reserve Fund Limited, and as a director of Butterfield Select Fund Limited. Mr. Weale is a Fellow of the Chartered Institute of Management Accountants and is a Chartered Global Management Accountant. We believe Mr. Weale's qualifications to serve on the Board include his professional financial management and accounting experience of over 35 years in the insurance and reinsurance industries.

Class B Directors, term expiring in 2021:

John V. Del Col. Mr. Del Col has been a director since April 2017 and Secretary since August 2015. He serves as Secretary and General Counsel of Somp International. Prior to joining Endurance Holdings, the predecessor to Somp International, in January 2003, Mr. Del Col was General Counsel and Deputy General Counsel for several property and casualty reinsurers and a merchant bank, having begun his career in associate roles at several New York law firms. He holds a JD from Harvard University and an AB from Dartmouth College. He is admitted to practice law in New York State. We believe Mr. Del Col's qualifications to serve on the Board include his professional management and legal experience of over 20 years in the insurance and reinsurance industries.

D. Andrew Cook. Mr. Cook has been a director since September 2013. In September 2019, Mr. Cook was named CEO of Grey Castle Life Reinsurance (SAC) Ltd. ("Grey Castle"), a Bermuda based entity that participates in the life reinsurance run-off space. Mr. Cook previously served as a director and Investment Committee Chair of Grey Castle. From May 19, 2015 to February 2, 2019, Mr. Cook served as Chief Financial Officer of Global Partner Acquisition Corp. ("GPAC") (Nasdaq:GPAC) a blank check company formed for the purpose of effecting a business combination with one or more businesses. On February 2, 2019 the GPAC shareholders' voted in favor of a business combination and accordingly, Mr. Cook resigned as CFO of GPAC. Mr. Cook served as President of Alterra Bermuda Limited from October 2010 to June 2013, in addition to his position as Executive Vice-President-Business Development, which he held from May 2010. From May 2010 to October 2010, he also served as Chief Integration Officer and Global Development Officer with Alterra Capital Holdings Limited ("Alterra Capital Holdings"). Mr. Cook served as Chief Financial Officer of Harbor Point Limited ("Harbor Point") from September 2006 until the merger of Max Capital Group Ltd. and Harbor Point in May 2010, which became Alterra Capital Holdings. He also served as Deputy Chairman, President and Chief Financial Officer of Harbor Point Re Limited. From 2001 to 2006, Mr. Cook was the Chief Financial Officer of AXIS Capital Holdings Limited, a Bermuda insurance and reinsurance company. From January 2001 until November 2001, he served as Senior Vice President and Chief Financial Officer of Mutual Risk Management Limited. From 1999 to 2000, he worked as an independent consultant assisting clients in raising private equity capital. From 1993 to 1999, he served as Senior Vice President and Chief Financial Officer of LaSalle Re Holdings Limited. Mr. Cook is a Canadian Chartered Professional Accountant. With his strong financial and accounting background, Mr. Cook serves as our Audit Committee Chair and meets the U.S. Securities and Exchange Commission (the "SEC") definition of an "Audit Committee Financial Expert" under Item 407(d) of Regulation S-K. We believe Mr. Cook's qualifications to serve on our Board include his extensive experience in the global insurance and reinsurance industries, including his executive management positions at major Bermuda-based reinsurance companies.

Class C Director and Director Nominee, term expiring in 2022:

Eric Lemieux. Mr. Lemieux has been a director since September 2013 and has been our Lead Director since October 2013. Since 2007, he has been the proprietor of Blue Pearl Advisors, Guilford, Connecticut, consulting on various insurance-related projects concentrating in the area of catastrophe risk management. From 2004 to 2007, he served as President of LightKeeper Specialty, Inc., a startup mono-line commercial insurer.

Mr. Lemieux was a founding member of the Black Diamond Group in 2001 and served as a director until 2004. From 1999 to 2001, he was Managing Director at Allianz and from 1992 to 1998 he was Chief Actuary at CAT Ltd., Bermuda. He previously held various actuarial positions at the Travelers Insurance Company from 1986 to 1992 and also worked at Liberty Mutual Group, Inc. from 1985 to 1986. Mr. Lemieux is a fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries. We believe Mr. Lemieux's qualifications to serve on the Board include his broad range of consulting and other experience in the reinsurance industry.

Information About Our Executive Officers

(As of February 25, 2020)

Name	Age	Position	Executive Officer Since
Michael J. McGuire (i)	47	CEO	2017
Greg A. Garside (ii)	48	CFO	2015
John V. Del Col (iii)	58	Secretary	2015

(i) See the biography of Mr. McGuire under "Directors, Executive Officers and Corporate Governance."

(ii) Mr. Garside also serves as the Controller and Vice President of Somp International and is the Treasurer of the Manager.

(iii) See the biography of Mr. Del Col under "Directors, Executive Officers and Corporate Governance."

Greg A. Garside. Mr. Garside has been the Company's CFO since November 2015. Mr. Garside serves as the Controller and Vice President of Sompo International and is the Treasurer of the Manager. He joined Endurance Holdings, the predecessor to Sompo International in 2002 and has held several financial reporting and controller positions of increasing responsibility. Prior to joining Sompo International, he served as Assistant Controller at LaSalle Re Ltd. and worked in the insurance audit practice at KPMG in Bermuda. Previously, he was a trainee accountant at Moore Stephens Chartered Accountants in London. Mr. Garside is a member of the Institute of Chartered Accountants in England and Wales.

Corporate Governance and Related Matters

The Board acts as the Company's ultimate decision maker and advises and oversees management, which is responsible for day-to-day operations. The Company has adopted Corporate Governance Guidelines and Procedures (the "Corporate Governance Guidelines") to provide a framework for the governance of the Company. This document is available on our website at (www.bcapre.bm > Corporate Governance > Corporate Governance Documents > Corporate Governance Guidelines and Procedures) and may also be obtained at no charge upon written request to the attention of the Company Secretary at Waterloo House, 100 Pitts Bay Road, Pembroke HM08, Bermuda.

Code of Conduct and Ethics

The Company has adopted a Code of Conduct and Ethics (the "Code of Conduct and Ethics") for all its directors, officers and employees, including the Company's CEO and CFO. This document is available on our website at (www.bcapre.bm > Corporate Governance > Corporate Governance Documents > Code of Conduct and Ethics) and may also be obtained at no charge upon written request to the attention of the Company Secretary at Waterloo House, 100 Pitts Bay Road, Pembroke HM08, Bermuda. Any waiver of any part of the Code of Conduct and Ethics for executive officers or directors may be made only by the Board (or the Audit Committee). Any such waivers or any amendments to the Code of Conduct and Ethics requiring disclosure under SEC and NYSE rules will be promptly disclosed on our website.

The Board and Committees

The Board

The Board currently consists of five members and is elected by Shareholders pursuant to the Company's Bye-Laws. The Board is divided into three classes, Class A, Class B and Class C, with each class serving for a staggered three-year term. The Board selects our CEO and our CFO, who are charged with the conduct of our business. After selecting the senior management team, the Board acts as an advisor to senior management and ultimately monitors its performance. The Board's ability to monitor senior management's performance is facilitated by the presence of independent directors who have experience in the reinsurance business.

The Board has determined that the positions of CEO and Chairman may be held by the same individual. The Board believes that its current leadership structure is appropriate for the Company at this time. As CEO and Chairman, Mr. McGuire is responsible for the day-to-day management of the Company and presides over meetings of the Board. The Lead Director, Mr. Lemieux, leads meetings of the non-management directors and acts as liaison between the non-management directors and the CEO.

Sompo International has the right to nominate two out of our five directors (or, if the Board consists of more than five directors, no less than 40% of the total Board seats at any given time), until the later of the date on which: (i) Sompo International sells any Common Shares; and (ii) Sompo International owns less than 5% of the total Common Shares outstanding.

Board Role in Risk Oversight

The Board oversees an enterprise-wide approach to risk management, designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and enhance shareholder value. A fundamental part of risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the Company. The involvement of the full Board in setting the Company's business strategy is a key part of its assessment of management's appetite for risk and also a determination of what constitutes an appropriate level of risk for the Company.

The Board receives regular reports from the Manager on the risk management work undertaken by management and the extent of any action taken to address areas identified for improvement. The Board defines the risk measures and risk

management processes to be used within the Company, including the definition of the Company's risk appetite and its risk tolerances. Discussions of risk management reporting, risk tolerance, risk measurement, capital management and corporate strategy take place at each of the Board meetings.

Board and Committee Meetings

During 2019 there were four meetings of the full Board, four meetings of the Audit Committee and two meetings of the Compensation Committee. During 2019 each of our directors attended over 75% of the meetings of the full Board and committees during the period such director was a member.

As Lead Director, Mr. Lemieux, attends and presides over each regularly scheduled executive session of non-management directors. The Board meets in executive session at least once during each year with only independent directors present.

It is the Board's policy that all directors will attend, or otherwise participate in, our Annual General Meetings of Shareholders unless unavoidably prevented from doing so. Each of our directors attended the 2019 Annual General Meeting of Shareholders.

Committees of the Board

The Board had two standing committees during 2019, the Audit Committee and the Compensation Committee.

The following table outlines the current members of each of the committees:

Director	Audit Committee	Compensation Committee
D. Andrew Cook	Chair	X
John V. Del Col		
Eric Lemieux	X	X
Michael J. McGuire		
John R. Weale	X	Chair

Audit Committee

The Board has determined that all members of the Audit Committee are "independent" within the meaning of the NYSE listing standards and the rules and regulations of the SEC. The Board has also determined that all members of the Audit Committee are financially literate and that, at a minimum, D. Andrew Cook meets the requirements of being an "Audit Committee Financial Expert" under Item 407(d) of Regulation S-K.

The Audit Committee is primarily responsible for the integrity of the Company's Consolidated Financial Statements, the Company's compliance with legal and regulatory requirements, the Company's internal audit activities and the independence, qualifications and performance of the Company's independent registered public accounting firm.

Specifically, these duties include:

- (i) selecting and overseeing the Company's independent registered public accounting firm;
- (ii) reviewing the scope of the audit to be conducted by them, as well as the results of their audit;
- (iii) overseeing the Company's financial reporting activities, including its annual and quarterly reports to Shareholders, and the accounting standards and principles followed;
- (iv) overseeing the review of the financial reporting process and internal audit activities that are designed to provide management and the Audit Committee with assessments of the Company's risk management processes and internal control systems;
- (v) approving audit and non-audit services provided to the Company by the independent registered public accounting firm;
- (vi) reviewing the organization and scope of the Company's internal audit activities; (vii) addressing requests for waivers of conflict of interest situations;
- (viii) overseeing the Company's legal and regulatory compliance;
- (ix) overseeing the Company's disclosure and internal controls; (x) preparing the report of the Audit Committee required by the rules and regulations of the SEC to be included in the Company's annual proxy statement;
- (xi) providing an avenue of communication among the independent auditors, management and the Board; and
- (xi) fulfilling all other duties and responsibilities as outlined within the Committee's charter.

The Audit Committee has established a charter, which outlines its primary duties and responsibilities. This document is available on our website at (www.bcapre.bm > Corporate Governance > Corporate Governance Documents > Audit Committee Charter) and also may be obtained at no charge upon written request to the attention of the Company Secretary at Waterloo House, 100 Pitts Bay Road, Pembroke HM08, Bermuda.

Compensation Committee

The Board has determined that all members of the Compensation Committee are "independent" within the meaning of the NYSE listing standards and Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The principal duties and responsibilities of the Compensation Committee related to compensation include:

- (i) establishing, maintaining and administering compensation and benefit policies designed to attract, motivate and retain personnel with the requisite skills and abilities to enable us to achieve superior operating results;
- (ii) approving and reviewing performance measures;
- (iii) evaluating performance and reviewing and approving all salary and incentive payments and equity awards for our executive officers;
- (iv) recommending to the Board management succession for all of our executive officers;
- (v) assisting in discharging the Board's responsibilities regarding all compensation matters;
- (vi) overseeing the administration of our compensation plans;
- (vii) reviewing and making recommendations on the compensation of our non-management directors;
- (viii) overseeing our compliance with the compensation rules, regulations, and guidelines promulgated by the NYSE, the SEC and other law, as applicable;
- (ix) reviewing and discussing with management executive compensation information and making a recommendation to the Board as to whether such information shall be included in the appropriate regulatory filings; and
- (x) fulfilling all other duties and responsibilities as outlined within the Compensation Committee's charter.

Pursuant to the terms of the Administrative Services Agreement with the Manager, which is described in more detail in Item 13. "*Certain Relationships and Related Person Transactions-Service Agreements with Sompco International*", the Manager provides us with, among other things, the services of our CFO, Mr. Garside, our CEO, Mr. McGuire, and our Secretary, Mr. Del Col, and is compensated for such services in accordance with the Administrative Services Agreement and the Investment Management Agreement. Nonetheless, the Compensation Committee is responsible for all aspects of compensation and benefits policies for any executive officers we may hire in the future. Our executive officers do not have any role in making determinations or recommendations regarding director compensation.

Neither the Compensation Committee nor management retained a compensation consultant during 2019.

The Compensation Committee is also responsible for nominating candidates for election to the Board and for reviewing and making recommendations on matters involving the general operation of the Board and our corporate governance.

The principal duties and responsibilities of the Compensation Committee related to nominating and corporate governance include:

- (i) establishing criteria for Board and committee membership and recommending to the Board proposed nominees for election to the Board and for membership on committees of the Board;
- (ii) searching for qualified director candidates as needed and reviewing background information of candidates for selection to the Board, including those recommended by Shareholders, and making recommendations to the Board regarding such candidates;
- (iii) assisting the Board in identifying individuals qualified to become Board members consistent with criteria approved by the Board and set forth in the Corporate Governance Guidelines and recommending director nominees to the Board;
- (iv) evaluating whether each director candidate is independent, is financially literate, has accounting or related financial management expertise, qualifies as an "Audit Committee Financial Expert" under Item 407(d) of Regulation S-K and is free of any conflict of interest or the appearance of any conflict of interest with the best interests of us and Shareholders;
- (v) identifying potential nominees for director through director suggestions, management recommendations, business, insurance industry and other contacts and Shareholder nominations;

- (vi) to the extent it deems appropriate, engaging a third-party search firm and other advisors to identify potential nominees for director;
- (vii) taking a leadership role on shaping our corporate governance;
- (viii) making recommendations to the Board regarding board governance matters and practices; and
- (ix) fulfilling all other duties and responsibilities as outlined within the Compensation Committee's charter.

Pursuant to the Compensation Committee's charter, a nominee recommended for a position on the Board should meet the following minimum qualifications:

- (i) such nominee must be over 21 years of age;
- (ii) such nominee must have the highest standards of integrity;
- (iii) such nominee must have significant accomplishments in his or her chosen field of expertise;
- (iv) such nominee must have experience with a high degree of responsibility in a business, non-profit organization, educational institution, professional services firm or other organization;
- (v) such nominee must be able to commit the appropriate time for preparing for Board meetings, attending meetings and other corporate governance matters;
- (vi) such nominee must be able to read and understand basic financial statements; and
- (vii) such nominee must be familiar with the role of the board of directors in a company. The Compensation Committee may determine that members of the Board should have diverse experiences, skills and perspectives as well as knowledge in the areas of insurance, reinsurance, investment, financial services and other aspects of the Company's activities.

There have been no changes to the procedures by which shareholders may recommend nominees to the Board within the past twelve months.

The Compensation Committee has established a charter, which outlines its primary duties and responsibilities. This document is available on our website at (www.bcapre.bm > Corporate Governance > Corporate Governance Documents > Compensation and Nominating Committee Charter) and may also be obtained at no charge upon written request to the attention of the Company Secretary at Waterloo House, 100 Pitts Bay Road, Pembroke HM08, Bermuda.

Item 11. Executive Compensation

Named Executive Officer Compensation

We do not have any employees. We do not have the staff or capability to manage our underwriting or investment practices within our organization. Instead, we have outsourced these functions to the Manager, subject to oversight by our CEO, our CFO and the Board. Our CEO and CFO are employees of Somp International and they provide us with these services pursuant to the Administrative Services Agreement and Investment Management Agreement.

Mr. McGuire, our CEO, Mr. Garside, our CFO, and Mr. Del Col, our Secretary, serve as our "Named Executive Officers." None of our Named Executive Officers receives any compensation directly from the Company in exchange for their services as executive officers. Rather, Mr. McGuire's and Mr. Del Col's services are deemed to be encompassed within the Management Fee we are charged by the Manager under the Investment Management Agreement and Mr. Garside's services are directly charged to us by the Manager under the Administrative Services Agreement. The compensation paid to each of our Named Executive Officers in respect of their services as executive officers is determined and paid by Somp International.

While no portion of the compensation paid to Mr. McGuire or Mr. Del Col is specifically allocated or paid to them based on the services that they provide to us, we have reasonably estimated based on the approximate time and costs they allocate to the Manager in respect of the Company that the aggregate amount of compensation paid to them in respect of 2019 that may reasonably be associated with the services they provide to the Company as executive officers was approximately \$241,000 in the aggregate, which represents 19% of the Management Fee we are charged by the Manager under the Investment Management Agreement. In addition, the Company pays the Manager a fixed service fee of \$375,000 per annum for Mr. Garside's services as CFO pursuant to the Administrative Services Agreement. Accordingly, the total compensation of our Named Executive Officers that may reasonably be associated with the services they provided to the Company in respect of 2019 was approximately \$616,000 in the aggregate. We have reasonably estimated that a total of 43% of this compensation represents fixed pay and the remaining 57% represents incentive or variable pay. The

variable incentive or variable portion of this compensation was paid based on the financial and strategic performance of Sompo International.

The following table summarizes the total compensation for each of the Company's Named Executive Officers during the year ended December 31, 2019:

2019 Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$)(2)	All Other Compensation (\$)(3)	Total (\$)
Michael J. McGuire, Chief Executive Officer (1)	2019	—	24,617	64,575	89,192
	2018	—	22,238	57,900	80,138
Greg A. Garside, Chief Financial Officer (1)	2019	375,000	—	—	375,000
	2018	375,000	—	—	375,000
John V. Del Col, Secretary (1)	2019	—	24,617	59,504	84,121
	2018	—	22,238	52,192	74,430

(1) The amounts set forth in this table with respect to Mr. McGuire and Mr. Del Col relate to compensation paid to them in respect of their service as members of the Board and do not relate to compensation in respect of their services as our executive officers. Pursuant to a letter agreement between Sompo International and each of Messrs. McGuire and Del Col, all of the compensation to which they are entitled to receive as members of our Board has been assigned and paid directly to Sompo International. As described above in "Executive Compensation-Named Executive Officer Compensation," none of our Named Executive Officers receives any compensation directly from the Company in exchange for their services as executive officers of the Company. The Named Executive Officers' remuneration and benefits are determined and provided by Sompo International and they do not receive any direct compensation from the Company. Accordingly, no such amounts have been included for Messrs. McGuire and Del Col in the Summary Compensation Table. The amounts in the Salary column of the Summary Compensation Table represent the fixed annual service fee of \$375,000 that the Company pays to the Manager for finance and accounting services, including Mr. Garside's services as CFO, pursuant to the Administrative Services Agreement.

(2) Represents the grant date fair value of RSU awards made during 2019 computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 without regard to estimated forfeitures. See Note 6 for a description of the assumptions used to determine the initial grant date fair value of RSUs.

(3) The amounts in this column in respect of 2019 represent (i) the amount of compensation earned by each of Mr. McGuire and Mr. Del Col for their service as members of our Board and (ii) dividend equivalents earned on outstanding RSUs held by each of Mr. McGuire and Mr. Del Col that were issued to them in respect of their service as members of our Board.

2013 Long-Term Incentive Plan

At the discretion of the Compensation Committee, incentive awards, the value of which are based on Common Shares, may be made to the Company's directors, future employees and consultants.

The Company's 2013 Long-Term Incentive Plan (the "2013 LTIP"), which was adopted by the Board on September 27, 2013, permits the issuance of up to one percent of the aggregate Common Shares outstanding (at the time of grant) to participants.

Incentive awards that may be granted under the 2013 LTIP include restricted share units ("RSUs"), restricted Common Shares, incentive share options (on a limited basis), non-qualified share options, share appreciation rights, deferred share units, performance compensation awards, performance units, cash incentive awards and other equity-based and equity-related awards.

As of December 31, 2019, there were 27,270 RSUs outstanding under the 2013 LTIP.

Outstanding Equity Awards at 2019 Fiscal Year-End

Name	Stock Awards	
	Number of Shares or Units of Stock That Have Not Vested (\$)(2)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)
Michael J. McGuire (1)	5,454	37,414
Greg A. Garside	—	—
John V. Del Col (1)	5,454	37,414

(1) Pursuant to a letter agreement between Sampo International and each of Messrs. McGuire and Del Col, all of the compensation to which they are entitled to receive as members of our Board has been assigned and paid directly to Sampo International.

(2) Represents outstanding RSUs received as director compensation as of December 31, 2019. The RSUs vest in equal annual installments over the applicable award cycle on June 15 of each year following the year in which the grant is made.

(3) The market value of all RSUs that have not vested was calculated using the \$6.86 closing market price of Common Shares on December 31, 2019, as quoted on the NYSE.

Potential Payments Upon Termination or Change in Control

Our Named Executive Officers are not entitled to any payments upon termination of their service as executive officers of the Company or upon a change in control. However, the RSUs that were granted to Mr. McGuire and Mr. Del Col in respect of their service as members of our Board will vest in full if, upon a change in control or within twenty-four (24) months thereafter, the director's service as a member of our Board is terminated either (i) by the Company without cause or (ii) on account of death or disability. Any vesting or payments made in connection with such accelerated vesting will be assigned and paid directly to Sampo International pursuant to their letter agreements with Sampo International.

Director Compensation

Each of our directors receives, or is entitled to receive, the following compensation for services as a director: an annual cash retainer of \$50,000 and an annual grant of RSUs with a grant-date fair value of approximately \$25,000. The RSUs granted to our directors vest in three equal annual installments beginning on the first anniversary of the date of grant based on continuous service, payable in Common Shares at the time of vesting. The Chairman, Lead Director and any director who serves as Chair of the Compensation Committee also receives an additional annual cash retainer of \$5,000, and any director who serves as Chair of the Audit Committee receives an additional annual cash retainer of \$15,000.

The following table summarizes the total compensation earned by the Company's independent directors during the year ended December 31, 2019. All of the compensation payable to Mr. McGuire and Mr. Del Col in respect of 2018 has been included in the "2019 Summary Compensation Table" included above and therefore Mr. McGuire and Mr. Del Col have not been included in this table.

Director	Fees Earned or Paid in Cash (\$)	Share Awards (1) (\$)	All Other Compensation (2) (\$)	Total (\$)
John R. Weale	55,000	24,617	9,575	89,192
D. Andrew Cook	65,000	24,617	9,575	99,192
Eric Lemieux	55,000	24,617	9,575	89,192

(1) Represents the grant date fair value of RSU awards made during 2019 computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 without regard to estimated forfeitures. Each director received a grant of 3,599 RSUs on June 15, 2019. The RSUs awarded each vest in three equal annual installments on June 15 of each of the following three years based on continuous service. See Note 6 to the 2019 Form 10-K for a description of the assumptions used to determine the initial grant date fair value of RSUs. As of December 31, 2019, Messrs. Weale, Cook, and Lemieux each held 5,454 unvested RSUs.

(2) Represents dividend equivalents earned on all outstanding RSUs held by the directors.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters
Security Ownership of Certain Beneficial Owners

The following table sets forth information, as of February 25, 2020 unless otherwise noted, with respect to the ownership of Common Shares by each person known by us to beneficially own more than 5% of the outstanding Common Shares.

Name and Address of Beneficial Owner	Number of Common Shares Owned	Percentage of Common Shares Outstanding (1)
Sompo International Holdings Ltd. (2) Waterloo House, 100 Pitts Bay Road Pembroke HM08 Bermuda	2,917,032	33.2%
Donald Smith & Co., Inc. (4) 152 W. 57th Street, 22nd Floor New York, NY 10019	763,612	8.7%
Baillie Gifford & Co. (3) Calton Square, 1 Greenside Row Edinburgh EH1 3AN Scotland, United Kingdom	618,438	7.0%
Standard Life Aberdeen PLC (5) 30 Lothian Rd. Edinburgh Scotland, United Kingdom	529,913	6.0%

(1) Based on 8,774,782 Common Shares outstanding as of February 25, 2020.

(2) Information based on a Form 4 filed with the SEC by Sompo International on June 15, 2018.

(3) Information based on a Schedule 13GA, as of December 31, 2019, filed with the SEC by Baillie Gifford & Co. on January 16, 2020.

(4) Information based on a Schedule 13G, as of December 31, 2019, filed with the SEC by Donald Smith & Co., Inc. on February 10, 2020.

(5) Information based on Schedule 13 G/A, as of December 31, 2019, filed with the SEC by Standard Life Aberdeen PLC on February 11, 2020.

Security Ownership of Management

The following table sets forth information, as of February 25, 2020, with respect to the beneficial ownership of Common Shares by each of our directors, director nominees and named executive officers and by all of our directors, director nominees and executive officers as a group. None of the Common Shares shown as beneficially owned by our directors and executive officers are known to have been pledged as collateral.

Name of Beneficial Owner (1)	Number of Common Shares Owned	Percentage of Common Shares Outstanding (2)
D. Andrew Cook	5,800	*
John V. Del Col	—	*
Greg A. Garside	—	*
Eric Lemieux	8,300	*
Michael J. McGuire	—	*
John R. Weale	8,600	*
All directors and executive officers as a group (6 persons)		*

* Represents less than 1.0% of the outstanding Common Shares as of February 25, 2020. Beneficial ownership is determined in accordance with Rule 13d-3(d)(1) under the Exchange Act, meaning that none of the unvested RSUs held by our directors are deemed to be Common Shares outstanding for computing the percentage held by each person or entity listed because none of the RSUs are scheduled to vest within 60 days of February 25, 2020.

- (1) The address of each of the beneficial owners identified is Waterloo House, 100 Pitts Bay Road, Pembroke HM08, Bermuda.
- (2) Based on 8,774,782 Common Shares outstanding as of February 25, 2020.

The Company's Insider Trading Policy prohibits all our directors, officers and employees from buying or selling options on Common Shares, from hedging the value of Common Shares and from pledging Common Shares as collateral.

Item 13. *Certain Relationships and Related Transactions and Director Independence*

Policies and Procedures for Related Person Transactions

The Board has adopted a written Related Person Transaction Policy (the "Related Person Transaction Policy"), which is available on our website at (www.bcapre.bm > Corporate Governance > Corporate Governance Documents > Related Person Transaction Policy). Under this Related Person Transaction policy, all relationships between us and any of our directors, executive officers, beneficial holders of more than 5% of any class of our voting securities or their immediate family members will be reviewed by our Audit Committee to determine whether such persons have a direct or indirect material interest in a proposed transaction. This Related Person Transaction Policy will not be applicable to day-to-day allocation, underwriting or investment decisions of the Manager, but it will be applicable to any changes to the terms of any agreements we have entered into with the Manager.

The Audit Committee will review and approve or ratify any related person transactions. In the course of its review, the Audit Committee will consider all relevant facts and circumstances, including:

- the nature of the related person's interest in the transaction;
- the material terms of the transaction, including the amount and type of the transaction;
- whether the transaction would impair the judgment of a director or executive officer in acting in our best interests;
- the importance of the transaction to the related person; and
- any other matters it deems appropriate.

Any member of the Audit Committee who is a related person with respect to a transaction under review may not participate in the deliberations or any vote respecting approval or ratification of the transaction; provided, however, that such director may be counted in determining the presence of a quorum at a meeting of the Audit Committee to consider the transaction.

We have entered into transactions with parties that are related to the Company. We believe that each of these transactions, as described below, was made on terms no less favorable to us than we could have obtained from unrelated parties.

Service Agreements with Sampo International

Through each of the following roles and relationships, we leverage Sampo International's reinsurance underwriting expertise and infrastructure to conduct our business: (i) the Manager manages our reinsurance underwriting decisions; (ii) Blue Water Re, Sampo International's wholly-owned special purpose insurance company, is a significant source of our reinsurance business (as described below); (iii) Mr. McGuire, the Manager's Chief Executive Officer and director serves as our CEO and Chairman of the Board; (iv) Mr. Garside, the Controller and Vice President of Sampo International and the Treasurer of the Manager, serves as our CFO; and (v) Mr. Del Col, Sampo International's General Counsel and a director of the Manager, serves as our Secretary and a director.

All of the compensation to which Messrs. Del Col and McGuire are entitled as directors of the Company has been assigned and paid directly to Sampo International.

Sampo International provides services to Blue Capital through the following arrangements:

BW Retrocessional Agreement. Through a retrocessional contract dated December 31, 2013 (the "BW Retrocessional Agreement"), between Blue Capital Re and Blue Water Re, Blue Water Re had the option to cede to Blue Capital Re up to 100% of its participation in the ceded reinsurance business it wrote, provided that such business was in accordance with the Company's underwriting guidelines. Pursuant to the BW Retrocessional Agreement, Blue Capital Re was able to participate in: (i) retrocessional, quota share or other agreements between Blue Water Re and Sampo International or other third-party reinsurers, which provided it with the opportunity to participate in a diversified portfolio of risks on a proportional basis; and (ii) fronting agreements between Blue Water Re and Sampo International or other well capitalized third-party rated

reinsurers, which allowed Blue Capital Re to transact business with counterparties who prefer to enter into contracts with rated reinsurers.

Investment Management Agreement. The Company has entered into an Investment Management Agreement with the Manager. Pursuant to the terms of the Investment Management Agreement, the Manager has full discretionary authority, including the delegation of the provision of its services, to manage the Company's assets, subject to the Company's underwriting guidelines, the terms of the Investment Management Agreement and the oversight of the Board.

Underwriting and Insurance Management Agreement. The Company, Blue Capital Re and the Manager have entered into an Underwriting and Insurance Management Agreement (the "Underwriting and Insurance Management Agreement"). Pursuant to the Underwriting and Insurance Management Agreement, the Manager provides underwriting, risk management, claims management, ceded retrocession agreements management and actuarial and reinsurance accounting services to Blue Capital Re. The Manager has full discretionary authority to manage the underwriting decisions of Blue Capital Re, subject to the Company's underwriting guidelines, the terms of the Underwriting and Insurance Management Agreement and the oversight of the Company's and Blue Capital Re's boards of directors.

Administrative Services Agreement. The Company has entered into an Administrative Services Agreement with the Manager, as amended on November 13, 2014 (the "Administrative Services Agreement"). Pursuant to the terms of the Administrative Services Agreement, the Manager provides Blue Capital with support services, including the services of our CEO, CFO and Secretary, as well as finance and accounting, internal audit, claims management and policy wording, modeling software licenses, office space, information technology, human resources and administrative support.

Amounts Incurred Under Service Agreements with Sampo International

The following table summarizes the fees payable to the Manager pursuant to the Investment Management Agreement, the Underwriting and Insurance Management Agreement and the Administrative Services Agreement and certain other terms of these agreements:

Summary Description

Management Fee	The Manager is entitled to a management fee (the "Management Fee") of 1.5% of our average total shareholders' equity per annum, calculated and payable in arrears in cash each quarter (or part thereof) that the Investment Management Agreement is in effect. For purposes of calculating the Management Fee, our total shareholders' equity means: (1) the net proceeds from all issuances of our equity securities since inception (allocated on a pro rata daily basis for such issuances during the quarter of any such issuance), plus (2) our retained earnings as of the end of the most recently completed quarter (without taking into account any non-cash compensation expense incurred in current or prior periods), minus (3) any amount that we may have paid to repurchase our Common Shares on a cumulative basis since inception. It also excludes (x) any unrealized gains and losses and other non-cash items that have impacted shareholders' equity as reported in our financial statements prepared in accordance with GAAP, other than unrealized gains and losses and other non-cash items relating to insurance-linked securities, and (y) one-time events pursuant to changes in GAAP after discussions between the Manager and our independent directors and approval by both a majority of our independent directors and the Manager for all such adjustments. As a result, our shareholders' equity, for purposes of calculating the Management Fee, could be greater or less than the amount of shareholders' equity shown on our financial statements.
Performance Fee	The Manager is entitled to a performance fee (the "Performance Fee") calculated and payable in arrears in cash each quarter (or part thereof) that the Underwriting and Insurance Management Agreement is in effect in an amount, not less than zero, equal to the product of (1) 20% and (2) the difference between (A) our pre-tax, pre-Performance Fee Distributable Income for the then current quarter and (B) a hurdle amount calculated as the product of (i) the weighted average of the issue price per Common Share pursuant to each of our public or private offerings of Common Shares since our inception multiplied by the weighted average number of all Common Shares outstanding (including any restricted share units, any restricted Common Shares and other Common Shares underlying awards granted under our equity incentive plans), as further reduced by the amount, if any, by which our inception-to-date dividends to shareholders exceeds our inception-to-date GAAP net income, and (ii) 2% (equivalent to an 8% annualized hurdle rate); provided, however, that the foregoing Performance Fee is subject to a rolling three-year high water mark.

Term	We generally may not terminate the Investment Management Agreement, the Underwriting and Insurance Management Agreement or the Administrative Services Agreement until November 5, 2021, whether or not the Manager's performance results are satisfactory. Each of these agreements renews automatically on November 5, 2021, and every three years thereafter, unless terminated in accordance with its terms. During the term of these agreements, we may not enter into any other investment management, underwriting and insurance management or services agreement.
Termination Fee	Upon any termination or non-renewal of either of the Investment Management Agreement or the Underwriting and Insurance Management Agreement (other than for a material breach by, or the insolvency of, the Manager), we will pay a one-time termination fee to the Manager equal to 5% of our GAAP shareholders' equity, calculated as of the most recently completed quarter prior to the date of termination.
Expense Reimbursement	Under the terms of the Investment Management Agreement and the Underwriting and Insurance Management Agreement, we reimburse the Manager for various fees, expenses and other costs in connection with the services provided under the terms of these agreements. The only fees payable under the terms of the Administrative Services Agreement are to reimburse the Manager for various fees, expenses and other costs in connection with the services provided under the terms of that agreement, including the services of our CFO, modeling software licenses and finance, legal and administrative support.

During the year ended December 31, 2019, the Company incurred general and administrative expenses of \$1.3 million pursuant to the Investment Management Agreement, \$0.6 million pursuant to the Administrative Services Agreement and nil pursuant to the Underwriting and Insurance Management Agreement.

During the year ended December 31, 2018, the Company incurred general and administrative expenses of \$1.8 million pursuant to the Investment Management Agreement, \$0.6 million pursuant to the Administrative Services Agreement and nil pursuant to the Underwriting and Insurance Management Agreement.

As of December 31, 2019 and 2018, the Company owed Sompo International \$0.5 million and \$1.0 million for the services performed pursuant to the aforementioned agreements, respectively.

Credit Facility

On May 6, 2016, the Company entered into a credit facility (the "2016 Credit Facility") with Endurance Investment Holdings Ltd. (the "Lender"), a wholly-owned subsidiary of Sompo International. The 2016 Credit Facility provided the Company with an unsecured \$20.0 million revolving credit facility for working capital and general corporate purposes. Borrowings under the 2016 Credit Facility incurred interest, set at the time of the borrowing, at a rate equal to the applicable LIBOR rate plus 150 basis points. A one-time fee of \$20,000 was paid to the Lender in connection with establishing the 2016 Credit Facility. The 2016 Credit Facility was amended on July 31, 2018 to extend its expiry to September 30, 2020 under identical terms. On December 31, 2018, Endurance Investment Holdings Ltd. was merged into its parent, Endurance Specialty Insurance Ltd. ("Endurance Bermuda"), and the obligations of the Lender were assumed by Endurance Bermuda. On July 30, 2019, the parties terminated the 2016 Credit Facility in light of the Company's plan to cease active operations.

The 2016 Credit Facility contained covenants that limited the Company's ability, among other things, to grant liens on its assets, sell assets, merge or consolidate, or incur debt. Had the Company failed to comply with any of these covenants, the Lender could have revoked the facility and exercised remedies against the Company.

In addition, in the event of a default in the performance of any of the agreements or covenants under certain management agreements with the Manager by the Company, the Lender had the right to terminate the 2016 Credit Facility. As of July 30, 2019, the Company was in compliance with all of its respective covenants associated with the 2016 Credit Facility.

On October 8, 2018, the Company borrowed \$3.0 million under the 2016 Credit Facility. On December 21, 2018, the Company borrowed a further \$1.0 million under the 2016 Credit Facility to support general corporate expense obligations for the period. As of December 31, 2018, the Company had \$4.0 million outstanding borrowings under the 2016 Credit Facility. With respect to the Company's outstanding borrowings, \$3.0 million was repaid on April 8, 2019 and while outstanding, was subject to annual interest rates ranging between 3.91% and 4.15% and \$1.0 million was repaid on April 18, 2019, and was subject to annual interest rates ranging between 4.07% and 4.11%

During the years ended December 31, 2019 and 2018, the Company paid interest on its borrowings under the 2016 Credit Facility of less than \$0.1 million.

During the years ended December 31, 2019 and 2018, the Company did not incur any facility or structuring fees in connection with the 2016 Credit Facility.

Shareholder and Registration Rights Agreement

Private Placement. Upon the completion of the initial public offering and through the Private Placement, Montpelier Reinsurance Ltd. purchased 2,500,000 Common Shares at a price of \$20.00 per share. In connection with the Private Placement, we entered into a shareholder and registration rights agreement, dated November 12, 2013 (the "Shareholder and Registration Rights Agreement"), with Montpelier Re Holdings Ltd., now by operation of law, Sompo International.

Governance. Pursuant to the Shareholder and Registration Rights Agreement, Sompo International has the right to nominate two of our five directors (or, if the Board consists of more than five directors, not less than 40% of the total Board seats at any given time) until the later of the date on which: (i) Sompo International sells any Common Shares; and (ii) Sompo International owns less than 5% of the outstanding Common Shares. Sompo International also has the right to designate one of its nominees as Chairman.

Pursuant to the Shareholder and Registration Rights Agreement, for so long as Sompo International has the right to nominate two directors to the Board; (i) if the size of the Board is five, a quorum of the Board cannot exist unless at least one director nominated by Sompo International is present at a meeting of the Board; and

(ii) if the size of the Board is greater than five, a quorum of the Board cannot exist unless at least two directors nominated by Sompo International are present at a meeting of the Board.

Registration Rights. Pursuant to the Shareholder and Registration Rights Agreement, we have granted Sompo International registration rights with respect to the Common Shares purchased in the Private Placement and any other Common Shares Sompo International may own. These rights include demand registration rights, shelf registration rights and "piggyback" registration rights, as well as customary indemnification. All fees, costs and expenses related to any registrations will be borne by us, other than underwriting discounts and commissions.

Demand Registration Rights. The Shareholder and Registration Rights Agreement grants Sompo International demand registration rights. We are required, upon the written request of Sompo International, to use our reasonable best efforts to effect registration of those Common Shares requested to be registered by Sompo International promptly after receipt of the request. We are not required to effect any such demand registration within 180 days after the effective date of a previous demand registration.

Shelf Registration Rights. The Shareholder and Registration Rights Agreement grants Sompo International shelf registration rights. Sompo International may demand that we file a shelf registration statement with respect to some or all of the Common Shares it holds, and, upon such demand, we are required to use our reasonable best efforts to effect such registration.

Piggyback Registration Rights. The Shareholder and Registration Rights Agreement grants Sompo International piggyback registration rights. If we register any Common Shares, either for our own account or for the account of other security holders, Sompo International is entitled, subject to certain limitations, to include some or all of the Common Shares it holds in the registration.

Corporate Opportunities. Pursuant to the Shareholder and Registration Rights Agreement, Sompo International or any of its affiliates or any of its or their respective directors, officers, employees, partners or agents are permitted to engage in activities or businesses that are competitive with us and will have no duty to refrain from engaging in such activities or businesses. The Shareholder and Registration Rights Agreement also generally releases Sompo International or any of its affiliates or any of its or their respective directors, officers, employees, partners or agents from referring any business opportunity to us.

Preemptive Rights. Pursuant to the Shareholder and Registration Rights Agreement, we have granted Sompo International preemptive rights to participate, at Sompo International's option, in any offerings of our equity securities. Sompo International's preemptive rights entitle it to participate in any issuance of equity securities by us based on Sompo International's pro rata portion of Common Shares that it holds at the time of such issuance.

General. The Shareholder and Registration Rights Agreement provides that, except as required by applicable law, neither we nor the Board shall take any action to cause the amendment of our organizational documents in a manner that is

inconsistent with, or adverse to, Somp International's governance and related rights under the Shareholder and Registration Rights Agreement. In addition, our Bye-Laws will be read and construed as one with the Shareholder and Registration Rights Agreement, and the provisions of the Shareholder and Registration Rights Agreement are incorporated into such Bye-Laws.

Director Independence

Members of the Audit Committee and the Compensation Committee must meet all applicable independence tests as defined by the NYSE, the SEC and the Company's Categorical Standards for Director Independence (the Company's "Independence Standards") as adopted by the Board and attached hereto as Appendix A. This document is also available on our website at (www.bcapre.bm > Corporate Governance > Corporate Governance Documents > Corporate Governance Guidelines and Procedures).

The Board and the Compensation Committee have reviewed the responses of directors and director nominees to a questionnaire asking about their direct and indirect relationships with the Company (including those of their immediate family members) and other potential conflicts of interest, as well as pertinent materials provided by management related to transactions, relationships or arrangements between the Company and the directors or director nominees or parties related thereto.

The Board has concluded that each of Messrs. Cook, Lemieux and Weale is independent in accordance with the director independence standards of the NYSE, the SEC and the Company's Independence Standards and that none of Messrs. Cook, Lemieux and Weale has a material relationship with the Company that would impair his independence from management or otherwise compromise his ability to act as an independent director. Neither Mr. McGuire nor Mr. Del Col, by virtue of his directorships or management positions with Somp International or its subsidiaries, is considered to be an independent director. Accordingly, the majority of the Board is comprised of independent directors.

Item 14. Principal Accountant Fees and Services

The policy of the Audit Committee is to pre-approve all audit and permissible non-audit services to be performed by the independent registered public accounting firm during the year. During the year ended December 31, 2019, Ernst & Young Ltd. did not perform any non-audit services on behalf of the Company.

Professional Fees Billed to the Company

The following table presents fees billed for professional services rendered by Ernst & Young Ltd. during 2019 and 2018. The Audit Committee has considered whether the provisions of total services by Ernst & Young Ltd. are compatible with maintaining its independence with respect to the Company.

	Year Ended December 31,	
	2019	2018
Audit Fees	327,000	397,500
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	—	—
Total Fees	<u>327,000</u>	<u>397,500</u>

Audit fees for 2019 and 2018 consist of fees paid to Ernst & Young Ltd. for professional services for the audit of the Company's annual consolidated financial statements, review of quarterly consolidated financial statements and regulatory filings or engagements and in the case of 2018, services that are normally provided by independent auditors in connection with the Sarbanes-Oxley Section 404 attestation.

PART IV**Item 15. Exhibits and Financial Statement Schedules****(a) Documents Filed as Part of the Report**

The consolidated financial statements and report of independent registered public accounting firm have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements appearing on page 74 of this report. A listing of all exhibits filed as part of the report appears on pages 70 through 72 of this report.

(b) Exhibits

The exhibits followed by an asterisk (*) indicate exhibits physically filed with this Annual Report on Form 10-K. All other exhibit numbers indicate exhibits filed by incorporation by reference.

Exhibit Number	Description of Document
3.1	Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, Registration No. 333-191586).
3.2	Certificate of Incorporation on Change of Name of the Company (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, Registration No. 333-191586).
3.3	Memorandum of Association of the Company (incorporated herein by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-1, Registration No. 333-191586).
3.4	Certificate of Deposit of Memorandum of Increase of Share Capital of the Company (incorporated herein by reference to Exhibit 3.4 to the Company's Registration Statement on Form S-1, Registration No. 333-191586).
3.5	Amended and Restated Bye-Laws (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed on May 9, 2018).
4.1	Form of Share Certificate (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, Registration No. 333-191586).
4.2	Description of Securities
10.1	Underwriting and Insurance Management Agreement dated November 12, 2013, among the Company, Blue Capital Re and the Manager (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K filed on November 12, 2013).
10.2	Investment Management Agreement dated November 12, 2013, between the Company and the Manager (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K filed on November 12, 2013).
10.3	Amended and Restated Administrative Services Agreement dated November 13, 2014, between the Company and the Manager (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on November 14, 2014).
10.4	Trademark License Agreement dated November 12, 2013, between the Company and Montpelier Re Holdings Ltd. ("Montpelier") (incorporated herein by reference to Exhibit 10.5 to the Company's Form 8-K filed on November 12, 2013).
10.5	Shareholder and Registration Rights Agreement dated November 12, 2013 (incorporated herein by reference to Exhibit 10.6 to the Company's Form 8-K filed on November 12, 2013).
10.6	Retrocession Agreement dated December 31, 2013, between Blue Capital Re and Blue Water Re (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on January 6, 2014).

Exhibit Number	Description of Document
10.7	The Company's Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1, Registration No. 333-191586). (**)
10.8	Form of 2014 Director Restricted Share Unit Award Agreement under the Company's 2013 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on May 15, 2014). (**)
10.9	Form of 2015-2019 Restricted Share Unit Award Agreement under the 2013 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on July 30, 2015). (**)
10.10	Credit Facility Agreement, dated May 6, 2016, between Blue Capital Reinsurance Holdings Ltd, and Endurance Investment Holdings Ltd (incorporated herein by reference to Exhibit 10 to the Company's Form 10-Q filed on May 9, 2016).
10.11	First Amendment to Credit Agreement made and entered into as of the 31st day of July, 2018 among Blue Capital Reinsurance Holdings Ltd. and Endurance Investment Holdings Ltd. (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on August 1, 2018).
10.12	Agreement to Terminate Credit Agreement, dated July 30, 2019, between Blue Capital Reinsurance Holdings Ltd. and Endurance Specialty Insurance Ltd. filed (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on July 31, 2019).
10.13	Letter dated September 27, 2017 by and among John V. Del Col, Sompo International and the Company (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on September 29, 2017). (**)
10.14	Letter dated September 27, 2017 by and among Michael McGuire, Sompo International and the Company (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K filed on September 29, 2017). (**)
21	Subsidiaries of the Registrant. (*)
24	Power of Attorney (included as part of Signatures page.) (*)
31.1	Certification of Michael McGuire, CEO of the Company, pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended. (*)
31.2	Certification of Greg A Garside, CFO of the Company, pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended. (*)
32	Certifications of Michael McGuire and Greg A Garside, CEO and CFO, respectively, of the Company, pursuant to 18 U.S.C. Section 1350. (*)
101	The following materials from the Company's Report on Form 10-K for the fiscal year ended December 31, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statement of Net Assets in Liquidation (Liquidation basis) at December 31, 2019; (ii) the Consolidated Balance Sheet at December 31, 2018; (iii) the Consolidated Statement of Changes in Net Assets in Liquidation for the period of August 1, 2019 to December 31, 2019; (iv) the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the seven months ended July 31, 2019 and the year ended December 31, 2018 ; (v) the Consolidated Statements of Shareholders' Equity for the seven months ended July 31, 2019 and the year ended December 31, 2018; (vi) the Consolidated Statements of Cash Flows for the seven months ended July 31, 2019 and the year ended December 31, 2018; and (vii) the Notes to the Consolidated Financial Statements. (*)

** Indicates a management contract or compensatory plan or arrangement

(c) Financial Statement Schedules

None.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BLUE CAPITAL REINSURANCE HOLDINGS LTD.

Date: February 28, 2020

By: /s/ GREG A. GARSIDE

Greg A. Garside
Chief Financial Officer

Power of Attorney

KNOW ALL MEN by these presents, that the undersigned does hereby make, constitute and appoint Michael J. McGuire, Greg A. Garside and Allison D. Kiene and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K for the fiscal year ended December 31, 2019, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, this Report on Form 10-K has been signed by the following persons in the capacities indicated on the 28th day of February, 2020.

<u>Signature</u>	<u>Title</u>
<u>/s/ MICHAEL J. MCGUIRE</u> Michael J. McGuire	Chief Executive Officer and Chairman (Principal Executive Officer)
<u>/s/ GREG A. GARSIDE</u> Greg A. Garside	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ D. ANDREW COOK</u> D. Andrew Cook	Director
<u>/s/ JOHN V. DEL COL</u> John V. Del Col	Director
<u>/s/ ERIC LEMIEUX</u> Eric Lemieux	Director
<u>/s/ JOHN R. WEALE</u> John R. Weale	Director

Index to Consolidated Financial Statements and Financial Statement Schedules**Form
10-K
page(s)**

Consolidated Financial Statements:

Report of Independent Registered Public Accounting Firm	F-1
Consolidated Statement of Net Assets in Liquidation (Liquidation Basis) as of December 31, 2019	F-2
Consolidated Balance Sheet (Going Concern Basis) as of December 31, 2018	F-3
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* Not required to be filed in accordance with Rule 7-05 of Regulation S-X.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Blue Capital Reinsurance Holdings Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Blue Capital Reinsurance Holdings Ltd. (the Company) as of December 31, 2018, the related consolidated statements of income (loss) and comprehensive income (loss), shareholders' equity and cash flows for the period from January 1, 2019 to July 31, 2019, the consolidated statement of net assets in liquidation as of December 31, 2019, the related consolidated statement of changes in net assets in liquidation for the period from August 1, 2019 to December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, the results of its operations and its cash flows for the year then ended and for the period from January 1, 2019 to July 31, 2019, its net assets in liquidation as of December 31, 2019, and the changes in its net assets in liquidation for the period from August 1, 2019 to December 31, 2019, in conformity with U.S. generally accepted accounting principles applied on the basis described below.

As described in Note 1 to the financial statements, the Board of Directors of the Company approved a plan of liquidation on July 24, 2019, and the Company commenced liquidation shortly thereafter. As a result, the Company has changed its basis of accounting for periods subsequent to July 31, 2019 from the going concern basis to a liquidation basis.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young Ltd.

We have served as the Company's auditor since 2015.

Hamilton, Bermuda

February 28, 2020

BLUE CAPITAL REINSURANCE HOLDINGS LTD.
CONSOLIDATED STATEMENT OF NET ASSETS IN LIQUIDATION
(Liquidation Basis)

(In millions of U.S. dollars)	December 31,
	2019
Assets	
Cash and cash equivalents	\$ 0.6
Reinsurance premiums receivable	11.3
Funds held by ceding companies	93.2
Other assets	3.0
Total Assets	<u>\$ 108.1</u>
Liabilities	
Loss and loss adjustment expense reserves	\$ 34.5
Reinsurance balances payable	3.4
Other liabilities (See Note 9)	0.8
Liability for estimated costs in excess of estimated receipts during liquidation (See Note 2)	2.1
Total Liabilities	<u>40.8</u>
Net Assets in Liquidation	<u>\$ 67.3</u>

See Notes to Consolidated Financial Statements, including Note 9, which describes certain related party transactions and Note 2 which describes the impact of the liquidation basis of accounting on net assets.

BLUE CAPITAL REINSURANCE HOLDINGS LTD.
CONSOLIDATED BALANCE SHEET
(Going Concern Basis)

(In millions of U.S. dollars, except share and per share amounts)	December 31, 2018
Assets	
Cash and cash equivalents	\$ 2.2
Reinsurance premiums receivable	8.9
Deferred reinsurance acquisition costs	0.1
Funds held by ceding companies	150.4
Other assets	1.7
Total Assets	\$ 163.3
Liabilities	
Loss and loss adjustment expense reserves	\$ 49.9
Unearned reinsurance premiums	0.8
Debt	4.0
Reinsurance balances payable	16.4
Other liabilities (See Note 9)	1.5
Total Liabilities	72.6
Shareholders' Equity	
Common Shares at \$1.00 par value per share - 100,000,000 shares authorized; 8,767,165 shares issued and outstanding	8.8
Additional paid-in capital	157.8
Retained deficit	(75.9)
Total Shareholders' Equity	90.7
Total Liabilities and Shareholders' Equity	\$ 163.3

See Notes to Consolidated Financial Statements, including Note 9, which describes certain related party transactions.

BLUE CAPITAL REINSURANCE HOLDINGS LTD.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION
(Liquidation Basis)

(In millions of U.S. dollars)	Period from August 1, 2019 to December 31, 2019
Net Assets in Liquidation at beginning of period	\$ 88.8
Changes in net assets in liquidation:	
Changes in liquidation value of reinsurance premiums receivable	0.2
Changes in liquidation value of loss and loss adjustment expense reserves	(2.0)
Remeasurement of assets and liabilities	(1.4)
Liquidating distributions to shareholders	(18.3)
Net Assets in Liquidation at end of period	<u>\$ 67.3</u>

See Notes to Consolidated Financial Statements, including Note 2, which describes the impact of the liquidation basis of accounting on net assets.

BLUE CAPITAL REINSURANCE HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(Going Concern Basis)

(In millions of U.S. dollars, except per share amounts)	Period from January 1, 2019 to July 31, 2019	Year Ended December 31, 2018
Revenues		
Reinsurance premiums written	\$ 11.1	\$ 33.2
Change in net unearned reinsurance premiums	0.8	0.2
Net reinsurance premiums earned	11.9	33.4
Net investment income	1.8	2.0
Total revenues	13.7	35.4
Expenses		
<i>Underwriting expenses:</i>		
Loss and loss adjustment expenses	5.7	50.5
Reinsurance acquisition costs	3.9	9.0
General and administrative expenses	2.4	4.5
Total expenses	12.0	64.0
Net income (loss) and comprehensive income (loss)	\$ 1.7	\$ (28.6)
Per share data:		
Basic and diluted income (loss) per Common Share	\$ 0.20	\$ (3.27)
Dividends declared per Common Share and RSU	\$ 0.30	\$ 0.90

See Notes to Consolidated Financial Statements, including Note 9, which describes certain related party transactions and Note 1, which describes the transition to the liquidation basis of accounting.

BLUE CAPITAL REINSURANCE HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Going Concern Basis)

(In millions of U.S. dollars)	Total shareholders' equity	Common Shares, at par value	Additional paid-in capital	Retained deficit
Balance at January 1, 2019	\$ 90.7	\$ 8.8	\$ 157.8	\$ (75.9)
Net income	1.8	—	—	1.8
Dividends declared - Common Shares and RSUs	(1.3)	—	(1.3)	—
Balance at March 31, 2019	\$ 91.2	\$ 8.8	\$ 156.5	\$ (74.1)
Net income	1.0	—	—	1.0
Dividends declared - Common Shares and RSUs	(1.3)	—	(1.3)	—
Balance at June 30, 2019	\$ 90.9	\$ 8.8	\$ 155.2	\$ (73.1)
Net loss	(1.1)	—	—	(1.1)
Dividends declared - Common Shares and RSUs	—	—	—	—
Balance at July 31, 2019	\$ 89.8	\$ 8.8	\$ 155.2	\$ (74.2)

(In millions of U.S. dollars)	Total shareholders' equity	Common Shares, at par value	Additional paid-in capital	Retained deficit
Balance at January 1, 2018	\$ 127.1	\$ 8.8	\$ 165.6	\$ (47.3)
Net income	0.5	—	—	0.5
Dividends declared - Common Shares and RSUs	(2.6)	—	(2.6)	—
Balance at March 31, 2018	\$ 125.0	\$ 8.8	\$ 163.0	\$ (46.8)
Net income	2.5	—	—	2.5
Dividends declared - Common Shares and RSUs	(2.7)	—	(2.7)	—
Balance at June 30, 2018	\$ 124.8	\$ 8.8	\$ 160.3	\$ (44.3)
Net loss	(6.7)	—	—	(6.7)
Dividends declared - Common Shares and RSUs	(2.6)	—	(2.6)	—
Balance at September 30, 2018	\$ 115.5	\$ 8.8	\$ 157.7	\$ (51.0)
Net loss	(24.9)	—	—	(24.9)
Expense recognized for RSUs	0.1	—	0.1	—
Dividends declared - Common Shares and RSUs	—	—	—	—
Balance at December 31, 2018	\$ 90.7	\$ 8.8	\$ 157.8	\$ (75.9)

See Notes to Consolidated Financial Statements, including Note 9, which describes certain related party transactions and Note 1, which describes the transition to the liquidation basis of accounting.

BLUE CAPITAL REINSURANCE HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Going Concern Basis)

(In millions of U.S. dollars)	Seven Months Ended July 31, 2019	Year Ended December 31, 2018
Cash flows provided by operations:		
Net income (loss)	\$ 1.7	\$ (28.6)
Charges to reconcile net income (loss) to net cash provided by operations:		
Expense recognized for RSUs	—	0.1
Net change in:		
Loss and loss adjustment expense reserves	(20.9)	6.5
Unearned reinsurance premiums	(0.8)	(0.2)
Reinsurance balances payable	(4.2)	6.3
Deferred reinsurance acquisition costs	0.1	—
Reinsurance premiums receivable	3.6	2.2
Funds held by ceding companies	28.3	14.4
Other liabilities	(0.4)	0.9
Other assets	(1.7)	(1.5)
Net cash and cash equivalents provided by operations	5.7	0.1
Net cash and cash equivalents used in investing activities	—	—
Cash flows used in financing activities:		
Dividends paid - Common Shares and RSUs	(2.6)	(7.9)
Borrowings under the Credit Facility	—	4.0
Repayment of borrowings under the Credit Facility	(4.0)	—
Net cash and cash equivalents used in financing activities	(6.6)	(3.9)
Net decrease in cash and cash equivalents during the period	(0.9)	(3.8)
Cash and cash equivalents - beginning of period	2.2	6.0
Cash and cash equivalents - end of period	\$ 1.3	\$ 2.2

See Notes to Consolidated Financial Statements, including Note 9, which describes certain related party transactions and Note 1, which describes the transition to the liquidation basis of accounting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
except per share amounts or as otherwise noted)

NOTE 1. Summary of Significant Accounting Policies***Basis of Presentation and Overview***

Blue Capital Reinsurance Holdings Ltd. (the "Company" or the "Registrant") is a Bermuda exempted limited liability company that, through its subsidiaries (collectively "Blue Capital"), offered collateralized reinsurance in the property catastrophe market and invested in various insurance-linked securities. The Company was incorporated under the laws of Bermuda on June 24, 2013, and commenced its operations on November 12, 2013. The Company's headquarters and principal executive offices are located at Waterloo House, 100 Pitts Bay Road, Pembroke HM 08, Bermuda, which is also our registered office.

On July 24, 2019, after considering strategic alternatives, the Board of Directors approved a plan to cease active operations and pursue an orderly run-off of the Company's liabilities and in-force portfolio and return capital to shareholders. As and when capital becomes available after settlement of existing liabilities and expenses and receipt of any necessary regulatory approvals, the Company expects to declare special distributions to shareholders. The Company intends to delist its common shares from the New York Stock Exchange and the Bermuda Stock Exchange prior to March 31, 2020. Following delisting, the Company intends to file a Form 15 with the U.S. Securities and Exchange Commission to terminate the registration of its shares and suspend its reporting obligations under the Securities Exchange Act of 1934, as amended. The Company will remain exposed to the performance of its underlying reinsurance treaties and the future release of collateral held in trust under the terms of underlying expired reinsurance treaties during the run-off of its business. Accordingly, the value and timing of any special distributions to be received by shareholders is inherently difficult to predict. The Company expects that it will complete the liquidation of its net assets and return of capital to shareholders by the end of 2021.

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP"). All significant intercompany accounts and transactions have been eliminated in consolidation. As a result of the decision to pursue an orderly run-off and return capital to shareholders, the Company's basis of accounting transitioned from the going concern basis of accounting ("Going Concern Basis") to the liquidation basis of accounting in accordance with GAAP ("Liquidation Basis"), effective July 31, 2019. Under the Liquidation Basis, all assets are stated at their estimated liquidation value and liabilities, including estimated costs associated with implementing the run-off and liquidation of the Company, are stated at their estimated settlement amounts over the remaining estimated liquidation period. The liquidation value of the Company's other assets and liabilities includes management's estimate of investment income to be generated from the expected collateral balances supporting our insurance liabilities over the estimated period of run-off and estimates for corporate expenses and management and administrative fees over the period. The estimated liquidation values for assets derived from future revenue streams and liabilities yet to be incurred are reflected on the Statement of Net Assets in Liquidation as the Liability for Estimated Costs in Excess of Estimated Receipts During Liquidation. The actual amounts realized for assets and settlement of liabilities and the actual costs of liquidation may differ materially from the estimated amounts.

All financial results and disclosures to July 31, 2019, prior to adopting the Liquidation Basis, are presented on a Going Concern Basis, which presents assets and liabilities in the normal course of business. As a result, the Balance Sheet as of December 31, 2018, the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss), Consolidated Statements of Changes in Shareholders' Equity and the Consolidated Statements of Cash Flows for the period January 1, 2019 through July 31, 2019 are presented on a Going Concern Basis.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues earned and expenses incurred during the period. Actual results could differ materially from those estimates. The significant estimates reflected in the Company's consolidated financial statements include, but are not limited to, loss and loss adjustment expense ("LAE") reserves, written and earned reinsurance premiums, future investment income to be received and corporate expenses, administrative fees and management fees relating to services to be provided over the liquidation period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
except per share amounts or as otherwise noted)

NOTE 1. Summary of Significant Accounting Policies, cont'd

The Company's Common Shares trade on the New York Stock Exchange under the symbol "BCRH" and on the Bermuda Stock Exchange under the symbol "BCRH.BH."

At December 31, 2019, Sampo International together with its wholly owned subsidiary, Endurance Specialty Insurance Ltd. ("Endurance Bermuda"), owned 33.2% of the Company's outstanding Common Shares. Sampo Holdings, Inc. is the ultimate beneficial owner of 33.2% of the Company's outstanding Common Shares through its ownership of Sampo International.

Prior to ceasing active operations, the Company operated as a single business segment through its wholly-owned subsidiaries: (i) Blue Capital Re Ltd. ("Blue Capital Re"), a Bermuda Class 3A insurer, which provided collateralized reinsurance; and (ii) Blue Capital Re ILS Ltd. ("Blue Capital Re ILS"), a Bermuda exempted limited liability company, which conducted hedging and other investment activities, including entering into industry loss warranties and related instruments, in support of Blue Capital Re's operations.

The Company's business strategy was to build and maintain a diversified portfolio of reinsurance risks that was intended to generate underwriting profits, which it intended principally to distribute to its shareholders through the payment of dividends, with returns commensurate with the amount of risk assumed. The Company sought to provide its shareholders with the opportunity to own an alternative asset class whose returns are believed to have historically been largely uncorrelated to those of other asset classes, such as global equities and bonds.

Through each of the following roles and relationships, Blue Capital leverages Sampo International's reinsurance underwriting expertise and infrastructure to conduct its business: (i) Blue Capital Management Ltd. (the "Manager"), a wholly-owned subsidiary of Sampo International, manages Blue Capital Re's and Blue Capital Re ILS' reinsurance underwriting decisions; (ii) Blue Water Re Ltd., Sampo International's wholly-owned special purpose insurance and reinsurance vehicle, has been a significant source of reinsurance business for Blue Capital Re; and (iii) certain employees of Sampo International also serve as the Company's Chief Executive Officer (the "CEO"), the Company's Chief Financial Officer (the "CFO"), and as two of the Company's five directors, including the role of Chairman of the Board.

The Company qualifies as a "smaller reporting company" as defined in Rule 405 of the Securities Act of 1933; Item 10(f) of Regulation S-K; and Rule 12b-2 under the Securities Exchange Act of 1934. As a result, the Company is allowed to provide scaled disclosures under Regulations S-K and Regulation S-X.

Cash and Cash Equivalents

Blue Capital's cash and cash equivalents of \$0.6 million and \$2.2 million at December 31, 2019 and 2018, respectively, consist of cash and fixed income investments with maturities of less than three months, as measured from the date of purchase. For all periods presented, the amortized cost of each of Blue Capital's cash equivalents approximated their fair value.

Amounts Held in Trust for the Benefit of Ceding Companies

Blue Capital Re does not operate with a financial strength rating and, instead, fully collateralizes its reinsurance obligations through cash and cash equivalents held in various trust funds established for the benefit of ceding companies.

As of December 31, 2019 and 2018, Blue Capital had pledged none of its cash and cash equivalents to trust accounts established for the benefit of third parties.

As of December 31, 2019 and 2018, Blue Capital had transferred \$93.2 million and \$150.4 million of its cash and cash equivalents to a trust account established by Blue Water Re for its benefit pursuant to the BW Retrocessional Agreement (see below). These amounts are presented on the Company's Consolidated Statement of Net Assets in Liquidation and Consolidated Balance Sheet as "funds held by ceding companies."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
except per share amounts or as otherwise noted)

NOTE 1. Summary of Significant Accounting Policies, cont'd***Reinsurance Premiums and Acquisition Costs***

Prior to ceasing active operations, Blue Capital Re wrote reinsurance contracts on both an excess-of-loss and a pro-rata basis. For excess-of-loss contracts, written premiums were typically based on the deposit or minimum premium specified in the reinsurance contract. For pro-rata contracts, written premiums were recognized based on estimates of ultimate premiums provided by either the ceding companies or the Manager.

All of Blue Capital Re's reinsurance contracts were typically written on a losses-occurring basis, which means that all loss events occurring during the period of the contract were covered, regardless of the inception dates of the underlying policies. Any loss events occurring after the expiration of a losses-occurring contract were not covered.

For reinsurance contracts which incorporated minimum premium amounts, Blue Capital Re typically wrote the entire ultimate premium at inception, and earned the associated premium after the premium was written over the term of the contract. For reinsurance contracts which did not incorporate minimum premium amounts, Blue Capital Re typically wrote the premium over the term of the contract, and earned the associated premium in the same periods that the premium was written.

Subsequent adjustments of written premium, based on reports of actual premium by the ceding companies, or revisions in estimates of ultimate premium, are recorded in the period in which they are determined. Such adjustments are generally determined after the associated risk periods have expired, in which case the premium adjustments are fully earned when written.

Unearned reinsurance premiums represent the portion of premiums written that were applicable to future reinsurance coverage provided by in-force contracts.

Reinsurance premiums receivable are recorded at amounts due less any provision for doubtful accounts. As of December 31, 2019 and 2018, Blue Capital Re did not require a provision for doubtful accounts.

When a reinsurance contract provides for a reinstatement of coverage following a covered loss, the associated reinstatement premiums were recorded as both written and earned when Blue Capital Re determined that such a loss event had occurred.

Deferred reinsurance acquisition costs were comprised of commissions, brokerage costs, premium taxes and excise taxes, each of which related directly to the writing of reinsurance contracts. Deferred reinsurance acquisition costs have been amortized over the underlying risk period of the related contracts. However, if the sum of a contract's expected losses and LAE and deferred reinsurance acquisition costs exceeded related unearned premiums and any projected investment income, a premium deficiency would have been determined to exist. In this event, deferred reinsurance acquisition costs would have been immediately expensed to the extent necessary to eliminate the premium deficiency. If the premium deficiency would have exceeded deferred reinsurance acquisition costs, a liability would have been accrued for the excess deficiency. There were no premium deficiency adjustments recognized during the periods presented.

Profit commissions incurred were included in reinsurance acquisition costs within the Company's Consolidated Statement of Income (Loss) and Comprehensive Income (Loss). Accrued profit commissions payable are included in reinsurance balances payable within the Company's Consolidated Statement of Net Assets in Liquidation and Consolidated Balance Sheet.

Reinsurance Balances Payable

Reinsurance balances payable consist of: (i) losses and LAE that have been approved for payment; and (ii) profit commissions payable.

As of December 31, 2019 and 2018, Blue Capital Re had reinsurance balances payable of \$3.4 million and \$16.4 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
except per share amounts or as otherwise noted)

NOTE 1. Summary of Significant Accounting Policies, cont'd***Ceded Reinsurance***

In the normal course of business, Blue Capital Re elected to participate in inuring reinsurance or retrocessional protection made available by its ceding companies. The amount of reinsurance that Blue Capital Re participated in varied from year to year depending on its risk appetite, as well as the availability and cost of the reinsurance coverage. Ceded reinsurance premiums were accounted for on a basis consistent with those used in accounting for the underlying reinsurance premiums assumed and have been reported as a reduction of net reinsurance premiums written and earned.

Under Blue Capital Re's reinsurance security policy, its reinsurers were typically required to be rated "A-" (Excellent) or better by A.M. Best (or an equivalent rating with another recognized rating agency) at the time the policy was written. Blue Capital Re has also considered reinsurers that are not rated or do not fall within this threshold on a case-by-case basis if collateralized up to policy limits, net of any premiums owed.

As of December 31, 2019, Blue Capital Re has never purchased any reinsurance directly. For all periods presented, all of the ceded reinsurance protection underlying Blue Capital Re's results was originated pursuant to the BW Retrocessional Agreement.

Fair Value Hierarchy

GAAP establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value of certain assets and liabilities into the three broad levels described below. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date, Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, and Level 3 inputs are unobservable inputs (i.e., on the basis of pricing models with significant unobservable inputs or non-binding broker quotes) for the asset or liability.

NOTE 2. Net Assets in Liquidation

The following is a reconciliation of Shareholders' Equity under the Going Concern Basis to net assets in liquidation under the Liquidation Basis as of July 31, 2019.

(\$ in millions)	July 31, 2019
Total shareholders' equity as of July 31, 2019 (Going Concern Basis)	\$ 89.8
Decrease from write off of prepaid assets	(0.1)
(Decrease) increase from liability for estimated costs in excess of estimated receipts during liquidation:	
Reinsurance premiums receivable ⁽¹⁾	6.0
Loss and loss adjustment expense reserves ⁽²⁾	(4.6)
Other assets and other liabilities ⁽³⁾	(2.3)
	(0.9)
Net assets in liquidation July 31, 2019	\$ 88.8

(1) The Company estimated premium, net of acquisition costs, to be earned and settled over the remaining liquidation period on in-force reinsurance treaties to be \$6.0 million;

(2) The Company estimated future liabilities for loss and LAE reserves to be incurred on in-force reinsurance treaties of \$4.6 million;

(3) The Company accrued \$1.7 million of investment income estimated to be earned on collateral balances over the anticipated period of run-off. In addition, the Company accrued \$4.0 million of estimated costs to be incurred over the remaining liquidation period from corporate expenses and management and administrative fees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
except per share amounts or as otherwise noted)

NOTE 2. Net Assets in Liquidation, cont'd

The estimate of net assets in liquidation represents expected future cash outflows related to the orderly run-off of the net assets of the Company. The Liquidation Basis requires the Company to estimate net cash flows from operations and to accrue all costs associated with implementing and completing the orderly run-off. These amounts can vary significantly due to, among other things, the timing and amounts associated with discharging known and contingent liabilities including the Company's loss and loss adjustment expense reserves and the costs associated with the winding-up of operations. These costs are estimated and are anticipated to be paid out over the liquidation period. Changes in estimates and assumptions are periodically reviewed and the effects of revisions are recorded in the consolidated financial statements in the period that they are determined to be necessary. The Company does not expect to incur significant costs related specifically to the disposal of its assets since they are predominantly comprised of highly liquid collateral balances in the form of cash and cash equivalents under the caption 'funds held by ceding companies' on the statement of net assets (liquidation basis).

The change in the liability for estimated costs in excess of estimated receipts during liquidation for the period from August 1 to December 31, 2019 is as follows:

(\$ in millions)	August 1, 2019	Change in Realizable Net Assets ⁽¹⁾	Remeasurement of Assets and Liabilities	December 31, 2019
Assets:				
Estimated net inflows from reinsurance premiums receivable	\$ 6.0	\$ (4.8)	\$ (1.2)	\$ —
Estimated net inflows from net investment income	1.7	(0.9)	—	0.8
Liabilities:				
Loss and loss adjustment expense reserves	(4.6)	4.6	—	—
Other liabilities for general and administrative expenses	(4.0)	1.3	(0.2)	(2.9)
Total liability for estimated costs in excess of estimated receipts during liquidation	\$ (0.9)	\$ 0.2	\$ (1.4)	\$ (2.1)

(1) Represents changes in cash and cash equivalents, reinsurance premiums receivable, loss and loss adjustments reserves, other assets and other liabilities.

NOTE 3. Loss and LAE Reserve Movements

The following table summarizes Blue Capital Re's loss and LAE reserve movements for the seven months ended July 31, 2019 and the year ended December 31, 2018:

(\$ in millions)	Seven Months Ended July 31, 2019	Year Ended December 31, 2018
Gross and net unpaid loss and LAE reserves - beginning	\$ 49.9	\$ 43.4
Losses and LAE incurred:		
Current year losses	2.3	31.5
Prior year losses	3.4	19.0
Total incurred losses and LAE	5.7	50.5
Losses and LAE paid and approved for payment:		
Current year losses	0.1	13.6
Prior year losses	26.5	30.4
Total losses and LAE paid and approved for payment	26.6	44.0
Gross and net unpaid loss and LAE reserves - ending	\$ 29.0	\$ 49.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
except per share amounts or as otherwise noted)

NOTE 3. Loss and LAE Reserve Movements, cont'd

Subsequent to the adoption of the liquidation basis of accounting, in the five month period ended December 31, 2019 the Company's Net Assets in Liquidation reflected estimates for incurred losses and loss adjustment expense reserves of \$4.6 million from current year losses and \$2.0 million from additional prior year losses. In addition, \$0.2 million in current year losses and \$8.5 million in prior year losses were paid and approved for payment in the five month period.

Loss and LAE reserves are comprised of case reserves (which are based on claims that have been reported) and incurred but not reported ("IBNR") reserves (which are based on losses that are believed to have occurred but for which claims have not yet been reported and may include a provision for expected future development on existing case reserves). Case reserves are set on the basis of loss reports received from third parties. IBNR reserves are estimated by management using various actuarial methods as well as a combination of the Manager's own loss experience, historical industry loss experience and management and the Manager's professional judgment.

The uncertainties inherent in the reserving process and potential delays by cedants and brokers in the reporting of loss information, together with the potential for unforeseen adverse developments, may result in loss and LAE reserves ultimately being significantly greater or less than the reserve provided at the end of any given reporting period. The degree of uncertainty is further increased when a significant loss event takes place near the end of a reporting period. Estimated ultimate losses for Typhoons Hagibis and Faxai which occurred in the latter half of 2019 are subject to particularly high uncertainty, as the large magnitude and recent occurrence of these events make damages particularly difficult to assess. In addition, there is a great deal of uncertainty regarding the extent to which judicial and regulatory rulings will cause uncovered perils, such as flood, to be covered by the ceding companies, which further increases the uncertainty around the ultimate loss estimates. Loss and LAE reserve estimates are regularly reviewed and updated as new information becomes known. Any resulting adjustments are reflected in income in the period in which they become known.

Blue Capital Re's reserving process is highly dependent on loss information received from its cedants and the Manager.

During the seven months ended July 31, 2019, Blue Capital Re's estimated ultimate loss for prior period accident years was increased by \$3.4 million due to the emergence of claims exceeding previous estimates of losses and LAE related to 2018 catastrophe events, primarily Typhoon Jebi. During the five months ended December 31, 2019, Blue Capital Re's estimated ultimate loss for prior period accident years was increased by \$2.0 million due to the emergence of claims exceeding previous estimates of losses and LAE related to 2017 catastrophe events Hurricane Irma, and to a lesser extent Hurricane Maria, as well as deterioration in losses incurred related to Typhoon Jebi, partially offset by favorable development related to the 2018 California Wildfires. During the year ended December 31, 2018, Blue Capital Re's estimated ultimate loss for prior period accident years was increased by \$19.0 million due to the emergence of claims exceeding previous estimates of losses and LAE related to 2017 catastrophe events, primarily Hurricane Irma.

The Company's loss and LAE reserves are generally derived from property catastrophe reinsurance contracts which provide protection to the ceding company against losses from earthquakes and hurricanes, as well as other natural and man-made catastrophes such as floods, tornadoes, storms and fires ("covered perils"). The predominant exposures covered by these contracts are losses stemming from property damage and business interruption resulting from a covered peril. The reinsurance contracts that the Company participates in have broadly similar characteristics including the type of coverage, market and claim duration and we operate as a single business segment. As such, the following information is not disaggregated beyond the segment level and is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have significantly different characteristics.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
except per share amounts or as otherwise noted)

NOTE 3. Loss and LAE Reserve Movements, cont'd
Claims Development Tables

The following tables show the development of the reserve for losses and LAE by accident year at July 31, 2019. Information presented for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 is required supplementary information and is unaudited.

Cumulative incurred losses and allocated LAE							
Accident year	For the years ended December 31,						For the seven months ended July 31,
	2014	2015	2016	2017	2018	2019	
2014	\$ 17.1	\$ 16.5	\$ 16.5	\$ 16.0	\$ 15.9	\$ 16.0	
2015	—	3.2	3.2	2.9	2.9	2.9	
2016	—	—	13.7	15.6	14.5	14.4	
2017	—	—	—	77.9	98.1	96.8	
2018	—	—	—	—	31.5	36.2	
2019	—	—	—	—	—	2.3	
Total						\$ 168.6	
Cumulative paid losses and allocated LAE							
Accident year	For the years ended December 31,						For the seven months ended July 31,
	2014	2015	2016	2017	2018	2019	
2014	\$ 9.2	\$ 14.5	\$ 15.5	\$ 15.7	\$ 15.8	\$ 15.9	
2015	—	1.2	2.1	2.7	2.8	2.8	
2016	—	—	4.7	10.2	12.1	12.5	
2017	—	—	—	40.4	68.7	76.7	
2018	—	—	—	—	13.6	31.6	
2019	—	—	—	—	—	0.1	
Total						\$ 139.6	
Total loss and LAE reserves at July 31, 2019						\$ 29.0	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
except per share amounts or as otherwise noted)

NOTE 3. Loss and LAE Reserve Movements, cont'd*IBNR Reserves and Claims Frequency*

The following table shows Blue Capital Re's incurred losses and LAE, IBNR reserves and cumulative number of reported claims by accident year as of July 31, 2019. A claim is defined as a reported loss from a cedant on an excess-of-loss reinsurance contract arising from a loss event for which the Company records a paid loss or case reserve. The claim frequency data excludes reported claim activity from pro-rata reinsurance contracts where losses are reported to the Company through periodic accounts and it is therefore impracticable to determine the frequency of reported claims.

As of July 31, 2019					
Accident Year	Incurred losses and allocated loss adjustment expenses	Total IBNR plus expected development on reported claims	Cumulative number of reported claims		
(U.S dollars in millions)					
2014	\$ 16.0	\$ 0.1	6		
2015	2.9	0.1	4		
2016	14.4	0.9	11		
2017	96.8	3.7	58		
2018	36.2	3.3	7		
2019	2.3	1.7	—		

Significant Changes in Methodologies and Assumptions

The Company incorporates a variety of actuarial methods and judgments in its reserving process. Two key inputs in the various actuarial methods employed by the Company are initial expected loss ratios and expected loss reporting patterns. These key inputs impact the potential variability in the estimate of the reserve for losses and LAE. The Company's loss and LAE reserves consider and reflect, in part, deviations resulting from differences between expected loss and actual loss reporting as well as judgments relating to the weights applied to the reserve levels indicated by the actuarial methods. Expected loss reporting patterns are based upon internal and external historical data and assumptions regarding claims reporting trends over a period of time that extends beyond the Company's own operating history.

Differences between actual reported losses and expected losses are anticipated to occur in any individual period and such deviations may influence future initial expected loss ratios and/or expected loss reporting patterns as recent actual experience becomes part of the historical data utilized as part of the ongoing reserve estimation process.

For the seven months ended July 31, 2019, as part of the Company's periodic review of key inputs and parameters it uses to establish its reserve for losses and LAE and in order to recognize accumulated historical experience and other relevant industry information, the Company made minor adjustments to the loss reporting patterns used. For the seven months ended July 31, 2019, the Company did not materially alter initial expected loss ratios for the relevant reinsurance reserve categories. There have been no other significant changes to methodologies and assumptions.

Claims Duration

The following table shows the historical average annual percentage payout of incurred claims for Blue Capital Re, by age as of July 31, 2019. This information is presented as required supplemental information and is unaudited.

Average annual percentage payout of incurred claims by age						
Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	
38.6%	36.7%	10.9%	2.9%	0.8%	0.2%	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
except per share amounts or as otherwise noted)

NOTE 4. Basic and Diluted Earnings Per Common Share

Prior to the adoption of the liquidation basis of accounting, the Company applied the two-class method of calculating its earnings per Common Share. In applying the two-class method, any outstanding RSUs are considered to be participating securities. See Note 6. For all periods presented in which RSUs were outstanding, the two-class method was used to determine basic and diluted earnings per Common Share since this method yielded a more dilutive result than the treasury stock method.

For purposes of determining basic and diluted earnings per Common Share, a portion of net income is allocated to outstanding RSUs, which served to reduce the Company's earnings per Common Share numerators. Net losses were not allocated to outstanding RSUs and, therefore, did not impact the Company's loss per Common Share numerators.

The following table outlines the Company's computation of its basic and diluted loss per Common Share for the seven month period ended July 31, 2019 and the year ended December 31, 2018:

(\$ in millions)	Seven Months Ended July 31, 2019	Year Ended December 31, 2018
Net income (loss)	\$ 1.7	\$ (28.6)
Less: net earnings (loss) allocated to participating securities (1)	—	—
Net loss per Common Share numerator	\$ 1.7	\$ (28.6)
Average Common Shares outstanding (in thousands of shares)	8,769	8,764
Basic and diluted loss per Common Share	\$ 0.20	\$ (3.27)

(1) For the current period, the net earnings allocated to participating securities totaled less than \$0.1 million. For the prior period, there were no earnings allocated to participating securities since the Company incurred a net loss.

Common Shares

The Company's share capital consists of Common Shares with a \$1.00 par value per share. Holders of Common Shares are entitled to one vote for each share held. As of December 31, 2019 and 2018, the Company had 8,774,782 and 8,767,165 Common Shares outstanding, respectively.

During 2019 and 2018, the Company issued a total of 7,617 and 5,936 Common Shares, respectively, in satisfaction of vested restricted share unit ("RSU") obligations. See Note 6.

Dividends and Distributions to Holders of Common Shares and RSUs

The Company declared and paid quarterly cash dividends of \$0.15 per Common Share and RSU during each of the first two quarters of the year ended December 31, 2019. As part of its plan to run-off and return capital to its shareholders, the Company declared and paid a special distribution of \$1.51 per Common Share and RSU in the third quarter and \$0.57 per Common Share and RSU in the fourth quarter of the year ended December 31, 2019. The Company declared and paid quarterly cash dividends of \$0.30 per Common Share and RSU during each of the first three quarters of the year ended December 31, 2018. The total amount of such dividends and special distributions declared and paid during 2019 and 2018 was \$20.9 million and \$7.9 million, respectively. Dividends declared in 2019 and 2018 are recorded as a deduction to additional paid-in capital within total shareholders' equity due to the Company maintaining a retained deficit throughout the period.

There are restrictions on the payment of dividends and distributions by the Company, Blue Capital Re and Blue Capital Re ILS. See Note 8. Any future determination to pay dividends to holders of Common Shares and RSUs will be at the discretion of the Board and will be dependent upon many factors, including the Company's financial condition, liquidity, run-off performance (including our ability to generate cash flow in excess of our expenses), capital requirements, general business conditions, and legal, regulatory and contractual restrictions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**(Expressed in millions of United States Dollars,
except per share amounts or as otherwise noted)**

NOTE 5. Credit Facility

On May 6, 2016, the Company entered into a credit facility (the "2016 Credit Facility") with Endurance Investment Holdings Ltd. (the "Lender"), a wholly-owned subsidiary of Sampo International. The 2016 Credit Facility provided the Company with an unsecured \$20.0 million revolving credit facility for working capital and general corporate purposes. Borrowings under the 2016 Credit Facility incurred interest, set at the time of the borrowing, at a rate equal to the applicable LIBOR rate plus 150 basis points. A one-time fee of \$20,000 was paid to the Lender in connection with establishing the 2016 Credit Facility. The 2016 Credit Facility was amended on July 31, 2018 to extend its expiry to September 30, 2020 under identical terms. On December 31, 2018, Endurance Investment Holdings Ltd. was merged into its parent, Endurance Bermuda, and the obligations of the Lender were assumed by Endurance Bermuda. On July 30, 2019, the parties terminated the 2016 Credit Facility in light of the Company's plan to cease active operations. See Note 1.

The 2016 Credit Facility contained covenants that limited the Company's ability, among other things, to grant liens on its assets, sell assets, merge or consolidate, or incur debt. Had the Company failed to comply with any of these covenants, the Lender could have revoked the facility and exercised remedies against the Company.

In addition, in the event of a default in the performance of any of the agreements or covenants under certain management agreements with the Manager by the Company, the Lender had the right to terminate the 2016 Credit Facility. As of July 30, 2019, the Company was in compliance with all of its respective covenants associated with the 2016 Credit Facility.

On October 8, 2018, the Company borrowed \$3.0 million under the 2016 Credit Facility. On December 21, 2018, the Company borrowed a further \$1.0 million under the 2016 Credit Facility to support general corporate expense obligations for the period. As of December 31, 2018, the Company had 4.0 million outstanding borrowings under the 2016 Credit Facility. With respect to the Company's outstanding borrowings, \$3.0 million was repaid on April 8, 2019 and while outstanding, was subject to annual interest rates ranging between 3.91% and 4.15% and \$1.0 million was repaid on April 18, 2019, and was subject to annual interest rates ranging between 4.07% and 4.11%.

During the seven months ended July 31, 2019 and the year ended December 31, 2018, the Company paid interest on its borrowings under the Credit Facilities of less than \$0.1 million.

During the seven months ended July 31, 2019 and the year ended December 31, 2018, the Company did not incur any facility or structuring fees in connection with the 2016 Credit Facility.

NOTE 6. Share-Based Compensation

The Company's 2013 Long-Term Incentive Plan (the "2013 LTIP"), which was adopted by the Board in September 2013, permits the issuance of up to one percent of the aggregate Common Shares outstanding to participants. Incentive awards that may be granted under the 2013 LTIP include RSUs, restricted Common Shares, incentive share options (on a limited basis), non-qualified share options, share appreciation rights, deferred share units, performance compensation awards, performance units, cash incentive awards and other equity-based and equity-related awards.

At the discretion of the Board's Compensation Committee, incentive awards, the value of which are based on Common Shares, may be made to the Company's directors, future employees and consultants pursuant to the 2013 LTIP. For all periods presented, the Company's outstanding share-based incentive awards consisted solely of RSUs.

RSUs are phantom (as opposed to actual) Common Shares which, depending on the individual award, vest in equal tranches over a one to five-year period, subject to the recipient maintaining a continuous relationship with the Company through the applicable vesting date. RSUs are payable in Common Shares upon vesting (the amount of which may be reduced by applicable statutory income tax withholdings at the recipient's option). RSUs do not require the payment of an exercise price and are not entitled to voting rights, but they are entitled to receive payments equivalent to any dividends and distributions declared on the Common Shares underlying the RSUs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
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NOTE 6. Share-Based Compensation, cont'd

During the seven months ended July 31, 2019 and year ended December 31, 2018, the Company awarded a total of 17,995 and 10,640 RSUs to its directors, respectively. The RSUs earn ratably each year based on continued service as a director over a three-year vesting period. The grant date fair value of the RSUs was \$0.1 million (2018: \$0.1 million). In determining the grant date fair value associated with the RSUs, the Company assumed a forfeiture rate of zero. The forfeiture assumption associated with the RSUs may be adjusted, if necessary, based on future experience.

During the seven months ended July 31, 2019, 7,617 (2018 - 5,936) of the RSUs vested. The fair value of the vesting RSUs was \$0.1 million (2018 - \$0.1 million). See Note 4.

During the seven months ended July 31, 2019 and the year ended December 31, 2018 no RSUs were forfeited.

During the seven months ended July 31, 2019 and the year ended December 31, 2018, the Company recognized less than \$0.1 million and \$0.1 million of RSU expense, respectively. At July 31, 2019, compensation costs not yet recognized related to unvested RSUs was \$0.2 million.

As of December 31, 2019 and 2018, there were 27,270 and 16,892 RSUs outstanding under the 2013 LTIP, respectively.

As the Company executes its plan of run-off, consistent with the terms of the 2013 LTIP, management expects all RSUs in issue to vest in the future, either naturally in the course of the standard vesting period or upon any of the holders' services as a director being terminated as part of the plan of run-off. The future vesting of the RSUs does not impact the valuation of the Company's net assets in liquidation.

NOTE 7. Income Taxes

The Company and its subsidiaries are domiciled in Bermuda and each have received an assurance from the Bermuda government exempting them from all local income, withholding and capital gains taxes until March 31, 2035. At the present time, no such taxes are levied in Bermuda.

The Company and its subsidiaries intend to conduct substantially all of their operations in Bermuda in a manner such that they will not be engaged in a trade or business in the U.S. However, because there is no definitive authority regarding activities that constitute being engaged in a trade or business in the U.S. for federal income tax purposes, the Company cannot assure that the IRS will not contend, perhaps successfully, that the Company or any of its subsidiaries is engaged in a trade or business in the U.S. A foreign corporation deemed to be so engaged would be subject to U.S. federal income tax, as well as branch profits tax, on its income that is treated as effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under an applicable tax treaty.

NOTE 8. Regulation and Capital Requirements

Blue Capital Re is registered under the Insurance Act 1978 of Bermuda and related regulations, as amended (the "Insurance Act"), as a Class 3A insurer. Class 3A insurers benefit from an expedited application process, less regulatory stringency and minimal capital and surplus requirements. As a result of the approvals received from the Bermuda Monetary Authority (the "BMA") and the terms of Blue Capital Re's business plan, Blue Capital Re's reinsurance contracts must be fully-collateralized. Furthermore, pursuant to the Company's cessation of operations and plan of run-off, on October 25, 2019, the BMA amended the license of Blue Capital Re to restrict it from entering into any contracts of insurance or reinsurance without obtaining the prior written approval of the BMA.

The Insurance Act limits the maximum amount of annual dividends and distributions that may be paid by a Class 3A insurer and provides that the value of the assets of an insurer must exceed the value of its liabilities by an amount greater than its prescribed minimum solvency margin. In light of the Company's decision to enter run-off and return capital to its shareholders, on October 25, 2019, the BMA amended the license of Blue Capital Re to require Blue Capital Re to obtain the written approval of the BMA prior to the declaration and/or payment of any dividends and/or the making of any capital contributions to Blue Capital Re's parent, shareholders or affiliates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
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NOTE 8. Regulation and Capital Requirements, cont'd

Accordingly, Blue Capital Re will be obligated to seek the BMA's advance approval in order to provide the Company with the funds required for each distribution to the Company's shareholders in connection with the run-off of the Company. To the extent Blue Capital Re is unable to obtain the BMA's approval, distributions to the Company's shareholders may be prevented or delayed until such time as Blue Capital Re receives the BMA's approval.

Blue Capital Re's minimum solvency margin has been set by the BMA to be \$1.0 million at all times, so long as, notwithstanding the amendments to Blue Capital's license described above: (i) Blue Capital Re only enters into contracts of reinsurance that are fully collateralized; and (ii) each transaction represents no material deviation from the original business plan filed with BMA at the time of Blue Capital Re's registration.

The Insurance Act further provides a minimum liquidity ratio and requires general business insurers and reinsurers to maintain the value of their relevant assets at not less than 75% of the amount of their relevant liabilities. Blue Capital Re exceeded its minimum liquidity requirements at December 31, 2019 and 2018 by \$81.1 million and \$112.0 million, respectively.

Blue Capital Re's 2019 statutory net income was \$3.7 million and 2018 statutory net loss was \$25.0 million. Blue Capital Re's statutory capital and surplus at December 31, 2019 and 2018 was \$69.5 million and \$92.6 million, respectively.

The Bermuda Companies Act 1981, as amended, also limits the Company's, Blue Capital Re's and Blue Capital Re ILS' ability to pay dividends and make distributions to its shareholders. None of the Company, Blue Capital Re or Blue Capital Re ILS is permitted to declare or pay a dividend, or make a distribution out of contributed surplus, if it is, or would after the payment be, unable to pay its liabilities as they become due, or if the realizable value of its assets would be less than its liabilities.

NOTE 9. Related Party Transactions

Through each of the following roles and relationships, Blue Capital leverages Sompo International's reinsurance underwriting expertise and infrastructure to conduct its business: (i) the Manager, a wholly-owned subsidiary of Sompo International, manages Blue Capital Re's and Blue Capital Re ILS' reinsurance underwriting decisions; (ii) Blue Water Re is a significant source of reinsurance business for Blue Capital Re; (iii) Sompo International's Chief Financial Officer is the Manager's Chief Executive Officer and serves as the Company's Chairman of the Board and CEO; (iv) the Manager's Treasurer serves as the Company's CFO; and (v) Sompo International's General Counsel and director of the Manager serves as the Company's Secretary and a director.

All of the compensation that employees of Sompo International are entitled to as directors of the Company is assigned directly to Sompo International.

As of December 31, 2019, Sompo International owned 33.2% of the Company's outstanding Common Shares.

Services Provided to Blue Capital by Sompo International

Sompo International provides services to Blue Capital through the following arrangements:

BW Retrocessional Agreement. Through a retrocessional contract dated December 31, 2013 (the "BW Retrocessional Agreement"), between Blue Capital Re and Blue Water Re, Blue Water Re has the option to cede to Blue Capital Re up to 100% of its participation in the reinsurance business it writes, provided that such business is in accordance with the Company's underwriting guidelines.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
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NOTE 9. Related Party Transactions, cont'd

Pursuant to the BW Retrocessional Agreement, Blue Capital Re was able to participate in: (i) retrocessional, quota share or other agreements between Blue Water Re and Sompo International or other third-party reinsurers, which provided it with the opportunity to participate in a diversified portfolio of risks on a proportional basis; (ii) fronting agreements between Blue Water Re and Endurance or other well capitalized third-party rated reinsurers, which allowed Blue Capital Re to transact business with counterparties who prefer to enter into contracts with rated reinsurers; and (iii) ceded reinsurance or retrocessional protection.

For all periods presented, all of the reinsurance business of Blue Capital Re was originated pursuant to the BW Retrocessional Agreement.

Investment Management Agreement. The Company has entered into an Investment Management Agreement with the Manager. Pursuant to the terms of the Investment Management Agreement, the Manager has full discretionary authority, including the delegation of the provision of its services, to manage the Company's assets, subject to the Company's underwriting guidelines, the terms of the Investment Management Agreement and the oversight of the Board.

Underwriting and Insurance Management Agreement. The Company, Blue Capital Re and the Manager have entered into an Underwriting and Insurance Management Agreement (the "Underwriting and Insurance Management Agreement"). Pursuant to the Underwriting and Insurance Management Agreement, the Manager provides underwriting, risk management, claims management, ceded retrocession agreements management and actuarial and reinsurance accounting services to Blue Capital Re. The Manager has full discretionary authority to manage the underwriting decisions of Blue Capital Re, subject to the Company's underwriting guidelines, the terms of the Underwriting and Insurance Management Agreement and the oversight of the Company's and Blue Capital Re's boards of directors.

Administrative Services Agreement. The Company has entered into an Administrative Services Agreement with the Manager, as amended on November 13, 2014 (the "Administrative Services Agreement"). Pursuant to the terms of the Administrative Services Agreement, the Manager provides Blue Capital with support services, including the services of our CFO, as well as finance and accounting, internal audit, claims management and policy wording, modeling software licenses, office space, information technology, human resources and administrative support.

Fees Incurred Pursuant to the Aforementioned Agreements

During the seven months ended July 31, 2019, the Company incurred general and administrative expenses of \$0.8 million pursuant to the Investment Management Agreement, \$0.3 million pursuant to the Administrative Services Agreement and nil pursuant to the Underwriting and Insurance Management Agreement.

During the year ended December 31, 2018, the Company incurred general and administrative expenses of \$1.8 million pursuant to the Investment Management Agreement, \$0.6 million pursuant to the Administrative Services Agreement and nil pursuant to the Underwriting and Insurance Management Agreement.

The Company continued to incur fees under the aforementioned agreements following its decision to pursue an orderly run-off and such fees are included in its estimates for corporate expenses over the period of run-off.

As of December 31, 2019 and 2018, the Company owed Sompo International \$0.5 million and \$1.0 million for the services performed pursuant to the aforementioned agreements, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
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NOTE 10. Commitments and Contingent Liabilities***Commitments***

As of December 31, 2019 and 2018, Blue Capital had no commitments for operating leases or capital expenditures and does not expect any material expenditures of this type during the foreseeable future.

The Company and its subsidiaries may not terminate the Investment Management Agreement, the Underwriting and Insurance Management Agreement or the Administrative Services Agreement other than at three year intervals, whether or not the Manager's performance results are satisfactory. Upon any termination or non-renewal of either of the Investment Management Agreement or the Underwriting and Insurance Management Agreement (other than for a material breach by, or the insolvency of, the Manager), the Company must pay a one-time termination fee to the Manager equal to 5% of its GAAP shareholders' equity (approximately \$3.4 million as of December 31, 2019). The Company's plan to cease active operations and pursue an orderly run-off does not trigger a termination fee.

Litigation

Blue Capital Re, pursuant to the BW Retrocessional Agreement, previously provided for a reinsurance recovery through its participation in an Industry Loss Warranty protection purchased by Blue Water Re. The counterparty to the Industry Loss Warranty disputed the claim for the recovery, which was based upon the size of an insured industry loss calculated based upon third-party data.

In June 2018, Blue Capital Re ILS, together with two other vehicles managed by the Manager, commenced legal proceedings against certain parties relating to the purchase by Blue Capital Re ILS of a parametric insurance product called an Industry Parametric Protection that provided coverage if the sustained wind speed during a hurricane or tropical storm exceeded a pre-selected trigger.

On February 25, 2019, the parties involved in the disputes described above reached an agreement to resolve all matters and withdraw the pending claims. The impact of the settlement was considered in the determination of recording the Company's best estimate of loss and LAE reserves as of December 31, 2018.

In addition to the disputes described above, Blue Capital Re, as a reinsurer, is subject to litigation and arbitration proceedings in the normal course of its business. Such proceedings often involve reinsurance contract disputes which are typical for the reinsurance industry. Blue Capital Re's estimates of possible losses incurred in connection with such legal proceedings are provided for as "loss and loss adjustment expenses" on its Consolidated Statements of Loss and Comprehensive Loss and are included within "loss and loss adjustment expense reserves" on its consolidated Statement of Net Assets in Liquidation and Consolidated Balance Sheet. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies.

Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our run-off performance, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States Dollars,
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NOTE 10. Commitments and Contingent Liabilities, cont'd***Concentrations of Credit and Counterparty Risk***

Blue Water Re markets retrocessional and reinsurance policies worldwide through brokers. Credit risk exists at Blue Capital Re, pursuant to the BW Retrocessional Agreement, to the extent that any of these brokers is unable to fulfill its contractual obligations to Blue Water Re. For example, Blue Water Re is required to pay amounts owed on claims under policies to brokers, and these brokers, in turn, pay these amounts to the ceding companies that have reinsured a portion of their liabilities with Blue Water Re. In some jurisdictions, if a broker fails to make such a payment, Blue Water Re and Blue Capital Re might remain liable to the ceding company for the deficiency. In addition, in certain jurisdictions, when the ceding company pays premiums for these policies to brokers, these premiums are considered to have been paid and the ceding insurer is no longer liable to Blue Water Re for those amounts, whether or not the premiums have actually been received.

Blue Capital Re remains liable for losses it incurs to the extent that any third-party reinsurer is unable or unwilling to make timely payments under reinsurance agreements. Blue Capital Re would also be liable in the event that its ceding companies were unable to collect amounts due from underlying third-party reinsurers.

NOTE 11. Fair Value of Financial Instruments

GAAP requires disclosure of fair value information for certain financial instruments. For those financial instruments in which quoted market prices are not available, fair values are estimated by discounting future cash flows using current market rates or quoted market prices for similar obligations.

These estimates are not necessarily indicative of amounts that could be realized in a current market exchange, as applicable. Blue Capital carries its assets and liabilities that constitute financial instruments at fair value with the exception of its debt.

At December 31, 2019, Blue Capital had no financial instruments on its Consolidated Statement of Net Assets. At December 31, 2018, Blue Capital had no financial instruments on its Consolidated Balance Sheet, with the exception of the \$4.0 million in outstanding borrowings under the 2016 Credit Facility, which are not carried at fair value. See Note 5.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements included in this report. The financial statements have been prepared in conformity with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Audit Committee of the Board, which is comprised entirely of independent, qualified directors, is responsible for the oversight of our accounting policies, financial reporting and internal control, including the appointment and compensation of our independent registered public accounting firm. The Audit Committee meets periodically with management and our independent registered public accounting firm to ensure they are carrying out their responsibilities. The Audit Committee is also responsible for performing an oversight role by reviewing our financial reports. Our independent registered public accounting firm has full and unlimited access to the Audit Committee, with or without management present, to discuss the adequacy of internal control over financial reporting and any other matters which they believe should be brought to their attention.

**BLUE CAPITAL REINSURANCE HOLDINGS LTD.
DESCRIPTION OF SECURITIES**

As of December 31, 2019, Blue Capital Reinsurance Holdings Ltd. (the “Company”) Common Shares were the only class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended.

The following description of the terms of our Common Shares is not complete and is qualified in its entirety by reference to our Certificate of Incorporation (together with its amendment, the “Certificate of Incorporation”), our Memorandum of Association, Memorandum of Increase of Share Capital and our Amended and Restated Bye-Laws (“Bye-Laws”), each of which are incorporated by reference as exhibits to our Annual Report on Form 10-K for the year ended December 31, 2019 of which this Exhibit 4.2 is a part.

DESCRIPTION OF COMMON STOCK

Authorized Capital Shares

The authorized capital stock of the Company consists of 100,000,000 Common Shares, each with a par value of \$1.00 per share.

Shareholder and Registration Rights Agreement

Private Placement. At the time of the completion of the initial public offering of our Common Shares, Montpelier Reinsurance Ltd. purchased 2,500,000 Common Shares at a price of \$20.00 per share in a private placement. In connection with the purchase, we entered into a shareholder and registration rights agreement, dated November 12, 2013 (the “Shareholder and Registration Rights Agreement”), with Montpelier Re Holdings Ltd., now by operation of law, Sompo International Holdings Ltd. (“Sompo International”).

Governance. Pursuant to the Shareholder and Registration Rights Agreement, Sompo International has the right to nominate two of our five directors (or, if the Board consists of more than five directors, not less than 40% of the total Board of Directors (the “Board”) seats at any given time) until the later of the date on which: (i) Sompo International sells any Common Shares; and (ii) Sompo International owns less than 5% of the outstanding Common Shares. Sompo International also has the right to designate one of its nominees as Chairman.

Pursuant to the Shareholder and Registration Rights Agreement, for so long as Sompo International has the right to nominate two directors to the Board; (i) if the size of the Board is five, a quorum of the Board cannot exist unless at least one director nominated by Sompo International is present at a meeting of the Board; and (ii) if the size of the Board is greater than five, a quorum of the Board cannot exist unless at least two directors nominated by Sompo International are present at a meeting of the Board.

Registration Rights. Pursuant to the Shareholder and Registration Rights Agreement, we have granted Sompo International registration rights with respect to the Common Shares purchased in the Private Placement and any other Common Shares Sompo International may own. These rights include demand registration rights, shelf registration rights and “piggyback” registration rights, as well as customary indemnification. All fees, costs and expenses related to any registrations will be borne by us, other than underwriting discounts and commissions.

Demand Registration Rights. The Shareholder and Registration Rights Agreement grants Sompo International demand registration rights. We are required, upon the written request of Sompo International, to use our reasonable best efforts to effect registration of those Common Shares requested to be registered by Sompo International promptly after receipt of the request. We are not required to effect any such demand registration within 180 days after the effective date of a previous demand registration.

Shelf Registration Rights. The Shareholder and Registration Rights Agreement grants Sompo International shelf registration rights. Sompo International may demand that we file a shelf registration statement with respect to some or all of the Common Shares it holds, and, upon such demand, we are required to use our reasonable best efforts to effect such registration.

Piggyback Registration Rights. The Shareholder and Registration Rights Agreement grants Sompo International piggyback registration rights. If we register any Common Shares, either for our own account or for the account of other security holders, Sompo International is entitled, subject to certain limitations, to include some or all of the Common Shares it holds in the registration.

Preemptive Rights. Pursuant to the Shareholder and Registration Rights Agreement, we have granted Somp International preemptive rights to participate, at Somp International's option, in any offerings of our equity securities. Somp International's preemptive rights entitle it to participate in any issuance of equity securities by us based on Somp International's pro rata portion of Common Shares that it holds at the time of such issuance.

General. The Shareholder and Registration Rights Agreement provides that, except as required by applicable law, neither we nor the Board shall take any action to cause the amendment of our organizational documents in a manner that is inconsistent with, or adverse to, Somp International's governance and related rights under the Shareholder and Registration Rights Agreement. In addition, our Bye-Laws will be read and construed as one with the Shareholder and Registration Rights Agreement, and the provisions of the Shareholder and Registration Rights Agreement are incorporated into such Bye-Laws.

Dividend Rights

The Board may, subject to these Bye-Laws and in accordance with Bermuda law declare a dividend to be paid to the shareholders, in proportion to the number of Common Shares held by them, and such dividend may be paid in cash or wholly or partly in specie in which case the Board may fix the value for distribution in specie of any assets. The Board may declare and make such other distributions (in cash or in specie) to the shareholders as may be lawfully made out of the assets of the Company. The Board may deduct from the dividends or distributions payable to any Shareholder all monies due from such Shareholder to the Company on account of calls or otherwise.

Voting Rights

Each share shall entitle or limit the holder thereof to such voting rights attributable to that class (or series) of share.

Except where a greater majority is required under Bermuda law, and subject to the Shareholder and Registration Rights Agreement, any question proposed for the consideration of the shareholders at any general meeting shall be decided by the affirmative vote of a majority of the votes cast at such meeting; provided that neither the Company nor the Board (or any committee thereof) shall take any action to cause any amendment of the Company's memorandum of association, the Bye-Laws or other organizational documents in a manner that is inconsistent with, or adverse to, Somp International's rights under the Shareholder and Registration Rights Agreement.

At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands or by a count of votes received in the form of electronic records, unless a poll is demanded in accordance with the Bye-Laws. On a poll, votes may be cast either personally or by proxy.

No shareholder shall, unless the Board otherwise determines, be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.

Anti-Takeover Provisions

Our Bye-Laws and provisions of Bermuda law to which we are subject contain provisions that could discourage, delay or prevent "change of control" transactions or changes in the Board and management that certain shareholders may view as beneficial or advantageous. These provisions include, among others:

- the Board is divided into three classes, with each class serving for a staggered three-year term, which prevents shareholders from electing an entirely new board of directors at an annual meeting;
- the Board has the authority to issue preferred shares without shareholder approval, which could be used to dilute the ownership of a potential hostile acquirer;
- the Board may decline to record the transfer of any Common Shares on our share register if they believe that: (i) registration of the transfer is required under any federal or state securities law or under the laws of any other jurisdiction and the registration has not yet been effected; or (ii) such transfer is likely to expose us to adverse tax consequences or materially adverse legal or regulatory treatment in any jurisdiction;
- our shareholders may only remove directors for cause, or for other reasons set out in our bye-laws (e.g., unsound mind);
- there are advance notice requirements for shareholders with respect to director nominations and actions to be taken at annual meetings; and

- under Bermuda law, for so long as our subsidiary, Blue Capital Re Ltd. is registered under the Bermuda Insurance Act 1978, the Bermuda Monetary Authority may object to a person holding more than 10% of our Common Shares if it appears to the Bermuda Monetary Authority that the person is not or is no longer fit and proper to be such a holder.

The foregoing factors, as well as the significant share ownership by Sampo International, could impede a merger, takeover or other business combination, which could reduce the market value of our Common Shares.

Cumulative Voting

Our Bye-Laws do not grant shareholder the right to vote cumulatively.

Liquidation Rights

If the Company shall be wound up, the liquidator may divide amongst the shareholders in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for such purposes set such values as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Shareholders or different classes of Shareholders. The liquidator may vest the whole or any part of such assets in trustees upon such trust for the benefit of the contributories as the liquidator shall think fit, but so that no shareholder shall be compelled to accept any shares or other assets upon which there is any liability.

Liability to Further Calls

The Board may from time to time make calls upon the shareholders in respect of any monies unpaid on their Common Shares (whether on account of the par value of the shares or by way of premium) and not by the terms of issue thereof made payable at a date fixed by or in accordance with such terms of issue, and each shareholder shall (subject to the Company serving upon him at least fourteen (14) days' notice specifying the time or times and place of payment) pay to the Company at the time or times and place so specified the amount called on his shares. A call may be revoked or postponed as the Board may determine.

Transfer Agent and Registrar

The transfer agent and registrar for the common stock is Computershare Trust Company, N.A.

Listing

Our Common Shares are listed on the New York Stock Exchange under the symbol BCRH and the Bermuda Stock Exchange under the symbol BCRH.BH.

**SUBSIDIARIES OF THE REGISTRANT
AS OF DECEMBER 31, 2019**

FULL NAME OF SUBSIDIARY

PLACE OF INCORPORATION

BLUE CAPITAL RE LTD.

BERMUDA

BLUE CAPITAL RE ILS LTD.

BERMUDA

**CERTIFICATION PURSUANT TO RULES 13a-14(a) OR 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Michael J. McGuire, Chief Executive Officer of Blue Capital Reinsurance Holdings Ltd., certify that:

1. I have reviewed this Annual Report on Form 10-K of Blue Capital Reinsurance Holdings Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 28, 2020

By:

/s/ Michael J. McGuire

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULES 13a-14(a) OR 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Greg A. Garside, Chief Financial Officer of Blue Capital Reinsurance Holdings Ltd., certify that:

1. I have reviewed this Annual Report on Form 10-K of Blue Capital Reinsurance Holdings Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 28, 2020

By:

/s/ Greg A. Garside

Chief Financial Officer

(Principal Financial Officer & Principal Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Annual Report on Form 10-K of Blue Capital Reinsurance Holdings Ltd. (the “registrant”), for the year ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “report”), I, Michael J. McGuire, Chief Executive Officer of the registrant, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and,
- (2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ Michael J. McGuire

Chief Executive Officer
(Principal Executive Officer)

February 28, 2020

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Annual Report on Form 10-K of Blue Capital Reinsurance Holdings Ltd. (the “registrant”), for the year ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “report”), I, Greg A Garside, Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and,
- (2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ Greg A Garside

Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

February 28, 2020

These certifications accompany the report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.