

Blue Capital Reinsurance Holdings Ltd.
Form 10-Q
May 04, 2015
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2015

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.

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(Exact Name of Registrant as Specified in Its Charter)

Bermuda

98-1120002

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

94 Pitts Bay Road

Pembroke HM 08

Bermuda

(Address of Principal Executive Offices)

(441) 296-5004

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of May 4, 2015, the registrant had 8,750,000 common shares outstanding, with a par value of \$1.00 per share (Common Shares).

Table of Contents

BLUE CAPITAL REINSURANCE HOLDINGS LTD.

INDEX TO FORM 10-Q

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u> 3
	<u>Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014 (Unaudited)</u> 3
	<u>Consolidated Statements of Operations and Comprehensive Income for the Three Month Periods Ended March 31, 2015 and 2014 (Unaudited)</u> 4
	<u>Consolidated Statements of Shareholders' Equity for the Three Month Periods Ended March 31, 2015 and 2014 (Unaudited)</u> 5
	<u>Consolidated Statements of Cash Flows for the Three Month Periods Ended March 31, 2015 and 2014 (Unaudited)</u> 6
	<u>Notes to Consolidated Financial Statements (Unaudited)</u> 7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 31
<u>Item 4.</u>	<u>Controls and Procedures</u> 31
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 31
<u>Item 1A.</u>	<u>Risk Factors</u> 31
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 31
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> 31
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> 31
<u>Item 5.</u>	<u>Other Information</u> 31
<u>Item 6.</u>	<u>Exhibits</u> 32
<u>SIGNATURES</u>	32

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****BLUE CAPITAL REINSURANCE HOLDINGS LTD.****CONSOLIDATED BALANCE SHEETS****Unaudited**

(In millions of U.S. dollars, except per share amounts)	March 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$ 7.9	\$ 11.5
Reinsurance premiums receivable	12.2	5.9
Deferred reinsurance acquisition costs	1.2	0.1
Funds held by ceding companies	186.8	183.6
Other assets	0.1	0.2
Total Assets	\$ 208.2	\$ 201.3
Liabilities		
Loss and loss adjustment expense reserves	\$ 7.2	\$ 7.9
Unearned reinsurance premiums	11.4	1.1
Debt	4.0	8.0
Reinsurance balances payable	2.7	2.8
Accounts payable and accrued expenses (See Note 11)	4.7	1.0
Other liabilities	0.6	
Total Liabilities	30.6	20.8
Commitments and Contingent Liabilities (See Note 12)		
Shareholders' Equity		
Common Shares, at par value - 8,750,000 shares issued and outstanding	8.8	8.8
Additional paid-in capital	165.3	165.2
Retained earnings	3.5	6.5
Total Shareholders' Equity	177.6	180.5
Total Liabilities and Shareholders' Equity	\$ 208.2	\$ 201.3

See Notes to Consolidated Financial Statements, including Note 11 which describes certain related party transactions.

Table of Contents**BLUE CAPITAL REINSURANCE HOLDINGS LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****Unaudited**

(In millions of U.S. dollars, except per share amounts)	Three Month Periods Ended March 31,	
	2015	2014
Revenues		
Reinsurance premiums written	\$ 20.1	\$ 21.8
Change in net unearned reinsurance premiums	(10.3)	(11.6)
Net reinsurance premiums earned	9.8	10.2
Net income from derivative instruments		0.1
Total revenues	9.8	10.3
Expenses		
<i>Underwriting expenses:</i>		
Loss and loss adjustment expenses	0.8	0.9
Reinsurance acquisition costs	2.3	2.2
General and administrative expenses	1.3	1.1
<i>Non-underwriting expenses:</i>		
Interest and financing expenses		
Total expenses	4.4	4.2
Net income and comprehensive income	\$ 5.4	\$ 6.1
Per share data:		
Basic and diluted earnings per Common Share	\$ 0.62	\$ 0.70
Dividends declared per Common Share and RSU	0.96	0.30

See Notes to Consolidated Financial Statements, including Note 11 which describes certain related party transactions.

Table of Contents**BLUE CAPITAL REINSURANCE HOLDINGS LTD.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY****Three Month Periods Ended March 31, 2015 and 2014****Unaudited**

(In millions of U.S. dollars)	Total shareholders equity	Common Shares, at par value	Additional paid-in capital	Retained earnings
Opening balances at January 1, 2015	\$ 180.5	\$ 8.8	\$ 165.2	\$ 6.5
Net income	5.4			5.4
Expense recognized for RSUs	0.1		0.1	
Dividends declared - Common Shares and RSUs	(8.4)			(8.4)
Ending balances at March 31, 2015	\$ 177.6	\$ 8.8	\$ 165.3	\$ 3.5

(In millions of U.S. dollars)	Total shareholders equity	Common Shares, at par value	Additional paid-in capital	Retained earnings (deficit)
Opening balances at January 1, 2014	\$ 173.3	\$ 8.8	\$ 165.2	\$ (0.7)
Net income	6.1			6.1
Dividends declared - Common Shares	(2.6)			(2.6)
Ending balances at March 31, 2014	\$ 176.8	\$ 8.8	\$ 165.2	\$ 2.8

See Notes to Consolidated Financial Statements, including Note 11 which describes certain related party transactions.

Table of Contents**BLUE CAPITAL REINSURANCE HOLDINGS LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS****Unaudited**

(In millions of U.S. dollars)	Three Month Periods Ended March 31,	
	2015	2014
Cash flows from operations:		
Net income	\$ 5.4	\$ 6.1
Charges to reconcile net income to net cash from operations:		
Expense recognized for RSUs	0.1	
Net change in:		
Loss and loss adjustment expense reserves	(0.7)	0.9
Unearned reinsurance premiums	10.3	11.6
Reinsurance balances payable	(0.1)	0.6
Deferred reinsurance acquisition costs	(1.1)	(0.9)
Reinsurance premiums receivable	(6.3)	(10.7)
Funds held by ceding companies	(3.2)	(54.0)
Accounts payable and accrued expenses	1.1	0.5
Other assets	0.1	1.6
Other liabilities	0.6	(0.1)
Net cash and cash equivalents provided from (used for) operations	6.2	(44.4)
Net cash and cash equivalents from investing activities		
Cash flows from financing activities:		
Dividends paid - Common Shares and RSUs	(5.8)	
Repayments of borrowings under the Credit Agreement	(4.0)	
Net cash and cash equivalents used for financing activities	(9.8)	
Net decrease in cash and cash equivalents during the period	(3.6)	(44.4)
Cash and cash equivalents - beginning of period	11.5	173.8
Cash and cash equivalents - end of period	\$ 7.9	\$ 129.4

See Notes to Consolidated Financial Statements, including Note 11 which describes certain related party transactions.

Table of Contents

BLUE CAPITAL REINSURANCE HOLDINGS LTD.

Notes to Consolidated Financial Statements

**(in millions of United States U.S. dollars, except share and per
share amounts or as otherwise indicated)**

Unaudited

NOTE 1. Basis of Presentation and 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), offers collateralized reinsurance in the property catastrophe market and invests 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 94 Pitts Bay Road, Pembroke, Bermuda HM 08.

The unaudited consolidated financial statements incorporated in this report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Form 10-K), as filed with the Securities and Exchange Commission (the SEC). In the opinion of management, these interim consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the Company's financial position, results of operations and cash flows. All significant intercompany accounts and transactions have been eliminated in consolidation. These interim consolidated financial statements may not be indicative of financial results for the full year. The December 31, 2014 condensed balance sheet data was derived from audited consolidated financial statements, but does not include all of the disclosures required by 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 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 these interim consolidated financial statements include, but are not limited to, loss and loss adjustment expense (LAE) reserves and written and earned reinsurance premiums.

The Company operates as a single business segment through its wholly-owned subsidiaries: (i) Blue Capital Re Ltd. (Blue Capital Re), a Bermuda Class 3A insurer which provides collateralized reinsurance; and (ii) Blue Capital Re ILS Ltd. (Blue Capital Re ILS), a Bermuda

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exempted limited liability company which conducts 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 is to build and maintain a diversified portfolio of reinsurance risks that will generate underwriting profits, which it intends principally to distribute to its shareholders through the payment of dividends, with returns commensurate with the amount of risk assumed. The Company seeks 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. Subject to the discretion of the Company s board of directors (the Board), the Company intends to distribute a minimum of 90% of its annual Distributable Income in the form of cash dividends to its holders of Common Shares and restricted share units (RSUs). Distributable Income, a non-GAAP measure, means GAAP net income plus (minus) non-cash expenses (revenues) recorded in net income for the period. Subject to the discretion of the Board, the Company intends to make quarterly dividend payments for each of the first three quarters of each year, followed by a fourth special dividend after the end of the year to meet its dividend payout target for each calendar year.

Table of Contents

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

As of March 31, 2015 and December 31, 2014, Montpelier owned 33.3% of the Company s outstanding Common Shares. See Note 11.

The Company qualifies as an emerging growth company as defined in Section 2(a)(19) of the Securities Act of 1933, as amended, as modified by the Jumpstart Our Business Startups Act of 2012 (the JOBS Act). As a result, the Company is eligible to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies. The Company intends to continue to take advantage of some, but not all, of the exemptions available to emerging growth companies until such time that it is no longer an emerging growth company. The Company has, however, irrevocably elected not to take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards. As a result, the Company will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies.

Cash and Cash Equivalents

Blue Capital s cash and cash equivalents of \$7.9 million and \$11.5 million at March 31, 2015 and December 31, 2014, respectively, consisted 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.

Net investment income is recorded net of investment management, custody and other investment-related expenses. During the three month periods ended March 31, 2015 and 2014, the amount of net investment income that Blue Capital earned on its cash and cash equivalents totaled less than \$0.1 million.

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 March 31, 2015, Blue Capital had pledged \$7.8 million of its cash and cash equivalents to trust accounts established for the benefit of third parties (\$5.2 million) and Blue Water Re (\$2.6 million). As of December 31, 2014, Blue Capital had pledged \$10.4 million of its cash and cash equivalents to trust accounts established for the benefit of third parties (\$10.0 million) and Blue Water Re (\$0.4 million). The cash and cash equivalents pledged to Blue Water Re represent funds that have not yet been formally transferred to a trust account established by Blue Water Re for its benefit pursuant to the BW Retrocessional Agreement. See Note 11. These amounts are presented on the Company s Consolidated

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Balance Sheets as cash and cash equivalents.

As of March 31, 2015 and December 31, 2014, Blue Capital had transferred \$186.8 million and \$183.6 million of its cash and cash equivalents, respectively, to a trust account established by Blue Water Re for its benefit pursuant to the BW Retrocessional Agreement. See Note 11. These amounts are presented on the Company's Consolidated Balance Sheets as funds held by ceding companies.

Table of Contents

Reinsurance Premiums and Acquisition Costs

Blue Capital Re writes 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 Blue Capital Re's reinsurance contracts are currently being written on a losses-occurring basis, which means that all claims occurring during the period of the contract are covered, regardless of the inception dates of the underlying policies. Any claims occurring after the expiration of a losses-occurring contract are not covered.

For reinsurance contracts which incorporate minimum premium amounts, Blue Capital Re typically writes the entire ultimate premium at inception, and earns the associated premium after the premium is written over the term of the contract. For reinsurance contracts which do not incorporate minimum premium amounts, Blue Capital Re typically writes the premium over the term of the contract, and earns the associated premium in the same periods that the premium is 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 are 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 March 31, 2015 and December 31, 2014, 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 are recorded as both written and earned when Blue Capital Re determines that such a loss event has occurred.

Deferred reinsurance acquisition costs are comprised of commissions, brokerage costs, premium taxes and excise taxes, each of which relates directly to the writing of reinsurance contracts. Deferred reinsurance acquisition costs are typically 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 exceeds related unearned premiums and any projected investment income, a premium deficiency is determined to exist. In this event, deferred reinsurance acquisition costs are immediately expensed to the extent necessary to eliminate the premium deficiency. If the premium deficiency exceeds deferred reinsurance acquisition costs then a liability is accrued for the excess deficiency. There were no premium deficiency adjustments recognized during the periods presented.

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Profit commissions incurred are included in reinsurance acquisition costs within the Company's Consolidated Statement of Operations and Comprehensive Income. Accrued profit commissions payable are included in reinsurance balances payable within the Company's Consolidated Balance Sheets.

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 March 31, 2015 and December 31, 2014, Blue Capital Re had reinsurance balances payable of \$2.7 million and \$2.8 million, respectively.

Table of Contents

Reinsurance

In the normal course of business, Blue Capital Re may purchase reinsurance in order to manage its exposures. The amount of reinsurance that Blue Capital Re may buy will vary from year to year depending on its risk appetite, as well as the availability and cost of the reinsurance coverage. Ceded reinsurance premiums will be accounted for on a basis consistent with those used in accounting for the underlying reinsurance premiums assumed and will be reported as a reduction of net reinsurance premiums written and earned.

Under Blue Capital Re's reinsurance security policy, its reinsurers are 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 is written. Blue Capital Re also considers 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. The Manager will monitor the financial condition and ratings of Blue Capital's reinsurers on an ongoing basis.

As of March 31, 2015 and December 31, 2014, Blue Capital Re had not purchased any reinsurance.

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.

Recent Accounting Pronouncements

There have been no recent accounting pronouncements that are expected to have a material impact on the presentation of either the Company's Consolidated Statements of Operations and Comprehensive Income or its Consolidated Balance Sheets.

NOTE 2. Loss and LAE Reserve Movements

The following table summarizes Blue Capital Re's loss and LAE reserve movements for the three month periods ended March 31, 2015 and 2014:

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	Three Month Periods Ended March 31,		
	2015		2014
Gross and net unpaid loss and LAE reserves - beginning	\$	7.9	\$ 0.9
Losses and LAE incurred:			
Current year losses		0.9	0.9
Prior year losses		(0.1)	
Total incurred losses and LAE		0.8	0.9
Losses and LAE paid and approved for payment:			
Current year losses			
Prior year losses		(1.5)	
Total losses and LAE paid and approved for payment		(1.5)	
Gross and net unpaid loss and LAE reserves - ending	\$	7.2	\$ 0.9

Table of Contents

Loss and LAE reserves are comprised of case reserves (which are based on claims that have been reported) and 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, 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. 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 three month periods ended March 31, 2015 and 2014, Blue Capital Re established \$0.9 million of loss and LAE reserves for estimated losses incurred during such periods. In addition, during the three month period ended March 31, 2015, Blue Capital Re recognized \$0.1 million of favorable loss and LAE reserve development for estimated losses incurred during 2014.

NOTE 3. Written and Earned Reinsurance Premiums

Written premiums represent business bound from ceding companies and net earned premiums represent the portion of net written premiums (gross written premiums less any ceded reinsurance) which is recognized as revenue over the period of time that coverage is provided. See Note 1.

Blue Capital seeks to diversify its 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 Blue Capital's gross premiums written by geographic area of risks insured:

	Three Month Periods Ended March 31,					
	2015			2014		
Worldwide (1)	\$	8.5	42%	\$	12.0	55%
USA:						
Nationwide		5.4	27		3.5	17
Gulf region		1.5	8		1.3	6
California		0.7	3		0.9	4

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Midwest region and other		0.6	3		1.0	4
Florida		0.5	2		0.8	4
Mid- Atlantic region		0.4	2		1.0	4
Worldwide, excluding U.S.(2)		2.5	13		1.3	6
Total gross premiums written	\$	20.1	100%	\$	21.8	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.

Table of Contents

The following table sets forth a breakdown of Blue Capital's net premiums earned by geographic area of risks insured:

	Three Month Periods Ended March 31,					
	2015			2014		
Worldwide (1)	\$	6.3	64%	\$	7.8	76%
USA:						
Nationwide		1.4	14		0.9	9
Florida		0.6	6		0.2	2
Gulf region		0.4	5		0.3	3
Midwest region and other		0.2	2		0.2	2
California		0.2	2		0.2	2
Mid- Atlantic region		0.1	1		0.3	3
Worldwide, excluding U.S.(2)		0.6	6		0.3	3
Total net premiums earned	\$	9.8	100%	\$	10.2	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.

NOTE 4. Derivative Instruments***Industry Loss Warranty (ILW) Swaps***

In February 2015, Blue Capital Re ILS entered into an ILW swap (the 2015 ILW Swap) with a third-party under which qualifying loss payments are triggered by reference to the level of losses incurred by the insurance industry as a whole, rather than by losses incurred by the insured. In return for a fixed payment of \$0.6 million, Blue Capital Re ILS is required to make a floating-rate payment in the event of certain losses incurred from specified natural catastrophes in the U.S., Europe, Japan, Australia and New Zealand from February 2015 to February 2016. Blue Capital Re ILS's maximum payment obligation under the 2015 ILW Swap is \$5.2 million. Through March 31, 2015, Blue Capital Re ILS was not aware of any industry loss event occurring that would have triggered a payment obligation under the 2015 ILW Swap.

The 2015 ILW Swap is valued on the basis of models developed by the Manager, which represent unobservable (Level 3) inputs. See Note 1. As of March 31, 2015, the fair value of the 2015 ILW Swap was \$0.6 million, and was recorded as an other liability on the Company's Consolidated Balance Sheets.

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During the three month period ended March 31, 2015, Blue Capital Re recognized net income from derivative instruments of less than \$0.1 million pursuant to the 2015 ILW Swap.

In December 2013, Blue Capital Re ILS entered into an ILW swap (the 2013 ILW Swap) with a third-party under which qualifying loss payments were triggered by reference to the level of losses incurred by the insurance industry as a whole, rather than by losses incurred by the insured. In return for a fixed payment of \$1.5 million, Blue Capital Re ILS was required to make a floating-rate payment in the event of certain losses incurred from specified natural catastrophes in the U.S., Europe, Japan, Australia and New Zealand from November 2013 to December 2014. Blue Capital Re ILS's maximum payment obligation under the 2013 ILW Swap was \$10.0 million. During the term of the 2013 ILW Swap, no industry loss event occurred which would have triggered a payment by Blue Capital Re ILS.

The 2013 ILW Swap was valued on the basis of models developed by the Manager, which represented unobservable (Level 3) inputs. See Note 1.

During the three month period ended March 31, 2014, Blue Capital Re recognized net income from derivative instruments of \$0.1 million pursuant to the 2013 ILW Swap.

Table of Contents

NOTE 5. Shareholders' Equity

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, subject to any voting limitations imposed by the Company's Bye-Laws. As of March 31, 2015 and December 31, 2014, the Company had 8,750,000 Common Shares outstanding.

Dividends to Holders of Common Shares and RSUs

The Company declared regular cash dividends per Common Share and RSU of \$0.30 during each of the three month periods ended March 31, 2015 and 2014. In addition, in February 2015, the Company declared a special dividend with respect to its 2014 Distributable Income of \$0.66 per Common Share and RSU. As of March 31, 2015 and 2014, the Company had \$2.6 million of dividends payable to holders of Common Shares and RSUs, which is included within accounts payable and accrued expenses on its Consolidated Balance Sheets.

The total amount of dividends paid to holders of Common Shares and RSUs during the three month periods ended March 31, 2015 and 2014 was \$5.8 million and zero, respectively.

There are restrictions on the payment of dividends by the Company, Blue Capital Re and Blue Capital Re ILS. See Note 10. 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 results of operations, cash flows, financial position, capital requirements, general business opportunities, and legal, regulatory and contractual restrictions.

Common Share Repurchase Authorization

As of March 31, 2015, the Company had no Common Share repurchase authorization as part of publicly announced plans or programs.

NOTE 6. Basic and Diluted Earnings Per Common Share

The Company applies 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 8. 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

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stock method.

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

The following table outlines the Company's computation of its basic and diluted earnings per Common Share for the three month periods ended March 31, 2015 and 2014:

	Three Month Periods Ended March 31,	
	2015	2014
Net income	\$ 5.4	\$ 6.1
Less: net earnings allocated to participating securities (1)		
Earnings per Common Share numerator	\$ 5.4	\$ 6.1
Average Common Shares outstanding (in thousands of shares)	8,750	8,750
Basic and diluted earnings per Common Share	\$ 0.62	\$ 0.70

(1) For the three month periods ended March 31, 2015 and 2014, the net earnings allocated to participating securities totaled less than \$0.1 million.

Table of Contents

NOTE 7. Credit Agreement

On May 2, 2014, the Company entered into a 364-day unsecured credit agreement (the "Credit Agreement") which permits it to borrow up to \$20.0 million on a revolving basis for working capital and general corporate purposes. Borrowings under the Credit Agreement bear interest, set at the time of the borrowing, at a rate equal to the 3-month LIBOR rate plus 100 basis points. The Company is also subject to an ongoing annual commitment and administrative fee of 0.375% of the facility's total capacity.

Montpelier serves as a guarantor of the Company's obligations under the Credit Agreement and receives an annual guarantee fee from the Company equal to 0.125% of the facility's total capacity. See Note 11.

As of March 31, 2015 and December 31, 2014, the Company had \$4.0 million and \$8.0 million of outstanding borrowings, respectively, under the Credit Agreement. Of the Company's outstanding borrowings at December 31, 2014, \$4.0 million was repaid on January 26, 2015 and the currently outstanding \$4.0 million borrowing must be repaid or extended, in the form of a new borrowing, no later than November 2, 2015. The interest rate associated with the Company's borrowings during the three month period ended March 31, 2015 ranged from 1.32% to 1.33%.

The Company incurred and paid interest and commitment fees on its borrowings under the Credit Agreement of less than \$0.1 million during the three month period ended March 31, 2015.

The Credit Agreement contains covenants that limit the Company's and, to a lesser extent, Montpelier's ability to, among other things, grant liens on its assets, sell assets, merge or consolidate, incur debt and enter into certain transactions with affiliates. The Credit Agreement also contains covenants that require: (i) the Company to maintain a debt to total capitalization ratio less than or equal to 22.5%; (ii) Montpelier to maintain a financial strength rating from Fitch of at least BBB+; and (iii) each of the Company and Montpelier to maintain at least 70% of its net worth as of the date of the Credit Agreement. If the Company or Montpelier were to fail to comply with any of these covenants, the lender could revoke the facility and exercise remedies against the Company or Montpelier. As of March 31, 2015 and December 31, 2014, the Company and Montpelier (as a guarantor) were in compliance with each of the covenants associated with the Credit Agreement.

NOTE 8. 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 and Nominating 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.

In June 2014 the Company awarded a total of 7,000 RSUs to its directors. The RSUs awarded 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 awarded was \$0.1 million. In determining the grant date fair value associated with the RSUs awarded, the Company assumed a forfeiture rate of zero. This forfeiture assumption may be adjusted, if necessary, based on future experience.

Table of Contents

During the three month period ended March 31, 2015, the Company recognized \$0.1 million of RSU expense. The Company expects to incur future RSU expense associated with its currently outstanding RSUs of less than \$0.1 million during the years ended December 31, 2015, 2016 and 2017.

As of March 31, 2015 and December 31, 2014, there were 7,000 RSUs outstanding under the 2013 LTIP.

NOTE 9. 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 U.S. Internal Revenue Service 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 10. 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. The Insurance Act also requires Blue Capital Re to maintain minimum levels of statutory net assets (Statutory Capital and Surplus), to maintain minimum liquidity ratios and to meet minimum solvency margins. 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. While Blue Capital Re is not required to prepare and file statutory financial statements or statutory financial returns annually with the BMA, Blue Capital Re is required to prepare and file annual audited GAAP financial statements with the BMA.

The Insurance Act limits the maximum amount of annual dividends and distributions that may be paid by Blue Capital Re. The payment of dividends in any year which would exceed 25% of its prior year-end Statutory Capital and Surplus requires the approval of the BMA. Also, if Blue Capital Re were to fail to meet its minimum solvency margin on the last day of any financial year, it would be prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA. Blue Capital Re's minimum solvency margin has been set by the BMA to be \$1.0 million at all times, so long as: (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.

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With respect to the year ending December 31, 2015, Blue Capital Re has the ability to dividend up to \$46.3 million to its parent without BMA approval. Blue Capital Re has not declared or paid any dividends to its parent since its inception.

The Insurance Act also limits the maximum amount of annual distributions that may be paid by Blue Capital Re. Blue Capital Re may not reduce its total capital by 15% or more, as set out in its previous year's financial statements, unless it has received the prior approval of the BMA. Total capital consists of the insurer's paid in share capital, its contributed surplus (sometimes called additional paid in capital) and any other fixed capital designated by the BMA as capital.

With respect to the year ending December 31, 2015, Blue Capital Re has the ability to distribute up to \$24.9 million of its total capital to its parent without BMA approval. Blue Capital Re has not declared or paid any distributions of its capital to its parent since its inception.

Table of Contents

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 March 31, 2015 by \$196.4 million.

Blue Capital Re's net income (which approximated its statutory net income) for the three month periods ended March 31, 2015 and 2014 was \$6.7 million and \$7.1 million, respectively.

The Bermuda Companies Act 1981, as amended, also limits the Company's, Blue Capital Re's and Blue Capital Re ILS's 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 11. Related Party Transactions

Through each of the following roles and relationships, Blue Capital leverages Montpelier's reinsurance underwriting expertise and infrastructure to conduct its business: (i) the Manager, a wholly-owned subsidiary of Montpelier, manages Blue Capital Re's and Blue Capital Re ILS's reinsurance underwriting decisions; (ii) Blue Water Re, Montpelier's wholly-owned special purpose insurance vehicle, is a significant source of reinsurance business for Blue Capital Re; (iii) Mr. William Pollett, Montpelier's Chief Corporate Development and Strategy Officer and Treasurer, serves as a director and CEO of the Company; (iv) Mr. Michael Paquette, Montpelier's CFO, serves as the Company's CFO; and (v) Mr. Christopher Harris, Montpelier's Chief Executive Officer, serves as Chairman of the Board.

All of the compensation to which Messrs. Pollett and Harris are entitled as directors of the Company has been assigned and paid directly to Montpelier.

As of March 31, 2015 and December 31, 2014, Montpelier owned 33.3% of the Company's outstanding Common Shares.

Services Provided to Blue Capital by Montpelier

Montpelier 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 ceded reinsurance business it writes, provided that such business is in accordance with the Company's underwriting guidelines. Pursuant to the BW Retrocessional Agreement, Blue Capital Re may participate in: (i) retrocessional, quota share or other agreements between Blue Water Re and Montpelier Re or

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other third-party reinsurers, which provides 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 Montpelier Re or other well capitalized third-party rated reinsurers, which allows Blue Capital Re to transact business with counterparties who prefer to enter into contracts with rated reinsurers.

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.

Table of Contents

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 Messrs. Pollett and Paquette, 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.

During each of the three month periods ended March 31, 2015 and 2014, the Company incurred general and administrative expenses of \$0.7 million pursuant to the Investment Management Agreement and \$0.1 million pursuant to the Administrative Services Agreement.

During the three month periods ended March 31, 2015 and 2014, the Company incurred general and administrative expenses of \$0.1 million and less than \$0.1 million pursuant to the Underwriting and Insurance Management Agreement, respectively.

During the three month period ended March 31, 2015, the Company incurred interest and financing expenses of less than \$0.1 million pursuant to Montpelier's guarantee of the Company's obligations with respect to the Credit Agreement. See Note 7.

As of March 31, 2015 and December 31, 2014, the Company owed Montpelier \$1.4 million and \$0.5 million for the services performed pursuant to the aforementioned agreements, respectively.

NOTE 12. Commitments and Contingent Liabilities

Commitments

As of March 31, 2015 and December 31, 2014, 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 until the fifth anniversary of the completion of its initial public offering in November 5,

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2013 (the IPO), 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 \$8.9 million as of March 31, 2015).

Litigation

Blue Capital, 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 Operations and Comprehensive Income and are included within loss and loss adjustment expense reserves on its Consolidated Balance Sheets.

The Company and its subsidiaries had no unresolved legal proceedings at March 31, 2015 and December 31, 2014.

Concentrations of Credit and Counterparty Risk

Blue Capital Re ILS's derivative instruments are subject to counterparty risk. The Company and the Manager routinely monitor this risk.

Table of Contents

Blue Capital Re markets retrocessional and reinsurance policies worldwide through brokers. Credit risk exists to the extent that any of these brokers may be unable to fulfill their contractual obligations to Blue Capital Re. For example, Blue Capital 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 Capital Re. In some jurisdictions, if a broker fails to make such a payment, 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 Capital 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 13. 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. Blue Capital carries its assets and liabilities that constitute financial instruments on its Consolidated Balance Sheets at fair value with the exception of its debt.

At March 31, 2015 and December 31, 2014, the fair value of the Company's outstanding borrowings under the Credit Agreement, each of which were of a short duration, approximated their carrying value of \$4.0 million and \$8.0 million, respectively. See Note 7.

Item 2. *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 three month periods ended March 31, 2015 and 2014, and our financial condition as of March 31, 2015 and December 31, 2014. This discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and related notes thereto included in Part I, Item 1 of this report and with our audited consolidated financial statements and related notes thereto contained in the 2014 Form 10-K, as filed with the SEC.

This discussion contains forward-looking statements within the meaning of the U.S. federal securities laws, pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, that are not historical facts, including statements about our beliefs and expectations. These statements are based upon current plans, estimates and projections. Forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of uncertainties and various risk factors, many of which are outside our control. See Item 1A *Risk Factors* contained in the 2014 Form 10-K, as filed with the SEC, for specific important factors that could cause actual

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results to differ materially from those contained in forward looking statements. You can identify forward-looking statements in this discussion by the use of words such as anticipates, estimates, expects, intends, plans and believes, and similar expressions or future or conditional verbs such as will, should, would, may and could. These forward-looking statements include, among others, statements relating to our future financial performance, our business prospects and strategy, our dividend policy and expected dividend payout, anticipated financial position, liquidity and capital needs and other similar matters. These forward-looking statements are based on management's current expectations and assumptions about future events, which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict.

Table of Contents

Important events and uncertainties that could cause our results or future dividends on, or repurchases of, Common Shares to change include, but are not limited to:

- the fact that we have limited operating history;

- 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, our Chief Financial Officer and our service providers;

- our ability to effectively execute our business plan and any new ventures that we may enter into;

- continued acceptance of our business strategy, 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 Montpelier and its subsidiaries;

- the cyclical nature of the property catastrophe insurance and reinsurance industry;

- the availability of capital and financing, including our ability to raise more equity capital and our ability to release capital from existing obligations to redeploy annually;

- the levels of new and renewal business achieved;

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- the availability of opportunities to increase writings within our property and catastrophe lines of business and our ability to capitalize on those opportunities;
- the inherent uncertainty of our risk management process, which is subject to, among other things, industry loss estimates and estimates generated by modeling techniques;
- changes in the availability, cost or quality of reinsurance or retrocessional coverage;
- the accuracy of those estimates and judgments used in the preparation of our financial statements, including those related to revenue recognition, reserves for loss and LAE, reinsurance recoverables, asset valuations, contingencies and litigation which, for a newer reinsurance company like us, are even more difficult to make than those made by a mature company because of our limited operating history;
- the inherent uncertainties in establishing loss and 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 amount and timing of reinsurance recoveries;

Table of Contents

- the overall level of competition, and the related supply and demand dynamics in our markets relating to growing capital levels in our industry;
- declining demand due to increased retentions by cedants and other factors;
- acts of terrorism, political unrest, outbreak of war and other hostilities or other non-forecasted and unpredictable events;
- unexpected developments concerning the small number of insurance and reinsurance brokers upon whom we rely for a large portion of revenues;
- operational risks, including the risk of fraud and any errors and omissions, as well as technology breaches or failures;
- our dependence as a holding company upon dividends or distributions from our operating subsidiaries; and
- changes in accounting principles or the application of such principles by regulators.

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.

A widely-used measure of relative underwriting performance for an insurance or reinsurance company is the combined ratio. Our combined ratio is calculated by adding: (i) the ratio of incurred losses and LAE to earned premiums (known as the loss and LAE ratio); (ii) the ratio of acquisition costs to earned premiums (known as the acquisition cost ratio); and (iii) the ratio of general and administrative expenses to earned premiums (known as the general and administrative expense ratio), with each component determined in accordance with GAAP (the GAAP combined ratio). A GAAP combined ratio under 100% indicates that an insurance or reinsurance company is generating an underwriting profit. A GAAP combined ratio over 100% indicates that an insurance or reinsurance company is generating an underwriting loss.

Overview

Natural Catastrophe Risk Management

We reinsure exposures throughout the world against various natural catastrophe perils. The Manager manages our net exposure to these perils using a combination of industry third-party models, proprietary models, underwriting judgment and purchases of outwards reinsurance and/or derivative instruments.

Our multi-tiered risk management approach focuses on tracking exposed contract limits, estimating the potential net impact of a single natural catastrophe event and simulating our yearly net operating result to reflect an aggregation of modeled underwriting, investment and other risks. The Manager and the Board regularly review the outputs from this process and the Manager routinely seeks to refine and improve our risk management process.

The following discussion should be read in conjunction with Item 1A *Risk Factors* included in the 2014 Form 10-K, as filed with the SEC, in particular the risk factor entitled *Our stated catastrophe and enterprise-wide risk management exposures are based on estimates and judgments which are subject to significant uncertainties.*

Exposure Management

The Manager monitors our net exposure to any one catastrophe loss event in any single zone within certain broadly defined major catastrophe zones. Our January 1, 2015 projected net exposures by zone were in compliance with our underwriting guidelines. Namely, our projected net exposure to any one zone was below 50% of our shareholders' equity at March 31, 2015.

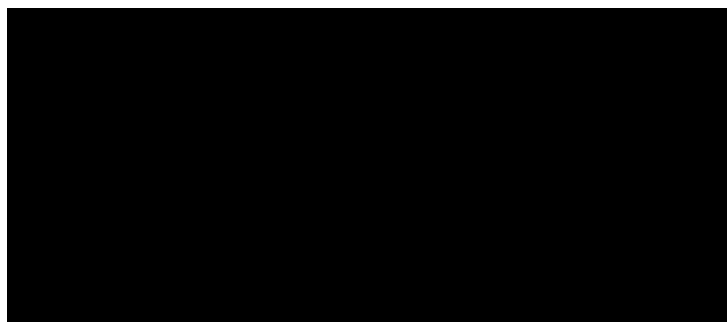
Table of Contents

These broadly defined major catastrophe zones are currently defined as follows:

North America:

Europe:

Rest of World:



(1) Consisting of France, Germany, Switzerland and Austria.

Single Event Losses

For certain defined natural catastrophe region and peril combinations, the Manager assesses the probability and likely magnitude of losses using a combination of industry third-party models, proprietary models and underwriting judgment. The Manager attempts to model the projected net impact from a single event, taking into account contributions from property catastrophe reinsurance (including retrocessional business), property pro-rata reinsurance and event-linked derivative securities, offset by the net benefit of any reinsurance or derivative protections we purchase and the benefit of premiums.

There is no single standard methodology or set of assumptions utilized industry-wide in estimating property catastrophe losses. As a result, it may be difficult to accurately compare estimates of risk exposure among different insurance and reinsurance companies due to, among other things, underwriting judgment, differences in modeling, modeling assumptions, portfolio composition and concentrations, and selected event scenarios.

The table that follows details the projected net impact from single event losses as of January 1, 2015 for selected zones at specified return periods using AIR Worldwide Corporation's Touchstone 2.0 and CATRADER 16.0, both of which are industry-recognized third-party vendor models. It is important to note that each catastrophe model contains its own assumptions as to the frequency and severity of loss events, and results may vary significantly from model to model.

Since the Manager utilizes a combination of third-party models, proprietary models and underwriting judgment to project the net impact from single event losses, our internal projections may be higher or lower than those presented in the table below:

Net Impact From Single Event Losses at Specified Return Periods

	Net Impact (Millions)	Return Period (1)	Percentage of March 31, 2015 Shareholders' Equity
U.S. - Florida hurricane	\$ 60	1 in 100 year	34%
Japan earthquake	31	1 in 250 year	17%
U.K. and Ireland windstorm	30	1 in 100 year	17%
All other zones			less than 15%

(1) A 100-year return period can also be referred to as the 1.0% occurrence exceedance probability (OEP), meaning there is a 1.0% chance in any given year that this level will be exceeded. A 250-year return period can also be referred to as the 0.4% OEP, meaning there is a 0.4% chance in any given year that this level will be exceeded.

Table of Contents

Our January 1, 2015 single event loss exposures were within our underwriting guidelines. Namely, the projected net impact from any one catastrophe loss event (excluding earthquake) at the 1 in 100 year return period for any one zone did not exceed 35% of our shareholders' equity at March 31, 2015, and the projected net impact from any one earthquake loss event at the 1 in 250 year return period for any zone did not exceed 35% of our shareholders' equity at March 31, 2015.

Our projections of the net impact from single event losses may vary considerably within a particular territory depending on the specific characteristics of the event.

Given the limited availability of reliable historical data, there is a great deal of uncertainty with regard to the accuracy of any catastrophe model, especially when contemplating longer return periods.

Our single event loss estimates represent snapshots as of January 1, 2015. The composition of our in-force portfolio may change materially at any time due to the acceptance of new policies, losses incurred, the expiration of existing policies and changes in our ceded reinsurance and derivative protections. There were no material changes made to the composition of our in-force portfolio from January 1, 2015 to March 31, 2015.

Annual Operating Result

In addition to monitoring treaty contract limits and single event accumulation potential, we attempt to simulate our annual operating result to reflect an aggregation of modeled underwriting risks. This approach estimates a net operating result over simulated twelve month periods, including contributions from certain variables such as aggregate premiums, losses and expenses.

The Manager views this approach as a supplement to our single event stress test as it allows for multiple losses from both natural catastrophe and other circumstances and attempts to take into account certain risks that are unrelated to our underwriting activities. Through our modeling, we endeavor to take into account many risks that we face as an enterprise. However, by the very nature of the insurance and reinsurance business, and due to limitations associated with the use of models in general, our simulated result does not cover every potential risk.

Summary Financial Results

Three Month Period Ended March 31, 2015

We ended the first quarter of 2015 with a book value per Common Share of \$20.28, an increase of 3.0% for the quarter after taking into account dividends declared on Common Shares during the period. The increase in our book value per Common Share, after taking into account dividends declared, was the result of strong underwriting results as evidenced by net income of \$5.4 million and a GAAP combined ratio of 44.3%.

Three Month Period Ended March 31, 2014

We ended the first quarter of 2014 with a book value per Common Share of \$20.20, an increase of 3.5% for the quarter after taking into account dividends declared on Common Shares during the period. The increase in our book value per Common Share, after taking into account dividends declared, was the result of strong underwriting results as evidenced by net income of \$6.1 million and a GAAP combined ratio of 41.0%.

Table of Contents*Book Value Per Common Share*

The following table presents our computation of book value per Common Share (BVPS) and FCBVPS as of selected balance sheet dates:

	March 31, 2015	Dec. 31, 2014	March 31, 2014
Book value numerator (in millions of U.S. dollars):			
[A] Shareholders' Equity	\$ 177.6	\$ 180.5	\$ 176.8
Book value denominators (in thousands of shares):			
[B] Common Shares outstanding	8,750	8,750	8,750
RSUs outstanding	7	7	
[C] Common Shares and RSUs outstanding	8,757	8,757	8,750
BVPCS [A] / [B]	\$ 20.30	\$ 20.63	\$ 20.20
FCBVPS [A] / [C]	20.28	20.62	20.20
<u>Increase in FCBVPS, after taking into account dividends declared: (1)</u>			
From December 31, 2014	3.0%		
From March 31, 2014	8.3%		

(1) Computed as the increase in FCBVPS after taking into account dividends declared on Common Shares and RSUs of \$0.96 and \$1.56 during the three and twelve month periods ended March 31, 2015, respectively.

Our computations of FCBVPS and the increase in FCBVPS are non-GAAP measures which we believe are important to our investors, analysts and other interested parties who benefit from having an objective and consistent basis for comparison with other companies within our industry.

Executive Overview

We are a Bermuda reinsurance holding company which offers collateralized reinsurance in the property catastrophe market. Our principal objective is 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 believe to be attractive risk and return characteristics. We provide 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.

Consistent with our dividend policy, we declared and paid regular quarterly dividends of \$0.30 per Common Share and RSU during each of the first three quarters of 2014 and, in February 2015, we declared a special dividend with respect to 2014 of \$0.66 per Common Share and RSU. The aggregate dollar value of all dividends declared with respect to 2014, which totaled \$13.7 million, represented 90.4% of our 2014

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Distributable Income. Additionally, in March 2015 we declared a regular first quarter 2015 dividend of \$0.30 per Common Share and RSU, which was paid on April 15, 2015 to all shareholders of record as of March 31, 2015.

We experienced continued competition during the key January 1, 2015 renewal season, due to relatively light industry catastrophe losses experienced over the past several quarters. As a result, we experienced an overall rate decrease of approximately 10% on the risks we wrote at January 1, 2015.

Despite the competitive market conditions we currently face, through the efforts of the Manager thus far in 2015, we believe that we have achieved preferred signings with our business partners. Given our strong balance sheet and the Manager's disciplined underwriting approach, we believe we are positioned to continue to perform well for the balance of 2015 and beyond.

Table of Contents

On March 31, 2015, Montpelier entered into an Agreement and Plan of Merger (the Merger) with Endurance Specialty Holdings Ltd. (Endurance), a Bermuda exempted company. Subject to the terms and conditions of the Merger, upon closing Montpelier will become a wholly-owned subsidiary of Endurance.

The Merger is subject to the approval of Montpelier's and Endurance's common shareholders, regulatory approvals and other customary closing conditions and is currently expected to be completed in the third quarter of 2015.

Montpelier currently owns 33.3% of our outstanding Common Shares and, among other things: (i) manages our reinsurance underwriting decisions; (ii) is a significant source of our reinsurance business; and (iii) provides us with the services of our CEO, CFO and Chairman of the Board.

Review of Consolidated Results of Operations

We operate 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 offers collateralized reinsurance; and (ii) Blue Capital Re ILS, a Bermuda exempted limited liability company which conducts hedging and other investment activities in support of Blue Capital Re's operations.

Our consolidated results of operations for the three month periods ended March 31, 2015 and 2014 were as follows:

(\$ in millions)	Three Month Periods Ended March 31,	
	2015	2014
Revenues		
Reinsurance premiums written	\$ 20.1	\$ 21.8
Change in net unearned reinsurance premiums	(10.3)	(11.6)
Net reinsurance premiums earned	9.8	10.2
Net income from derivative instruments (1)		0.1
Total revenues	9.8	10.3
Expenses		
<i>Underwriting expenses:</i>		
Loss and LAE - current year losses	(0.9)	(0.9)
Loss and LAE - prior year losses	0.1	
Reinsurance acquisition costs	(2.3)	(2.2)
General and administrative expenses	(1.3)	(1.1)
<i>Non-underwriting expenses:</i>		
Interest and financing expenses (1)		

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Total expenses	(4.4)	(4.2)
Net income and comprehensive income	\$ 5.4	\$ 6.1
Loss and LAE ratio	8.5%	8.5%
Acquisition cost ratio	22.7%	21.3%
General and administrative expense ratio	13.1%	11.2%
GAAP combined ratio	44.3%	41.0%

(1) During the three month period ended March 31, 2015, these income and expense items totaled less than \$0.1 million.

Table of Contents

Reinsurance Premiums Written and Earned

During the three month periods ended March 31, 2015 and 2014, we wrote \$20.1 million and \$21.8 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 first quarter of 2015, versus that of the comparable 2014 period, was primarily the result of rate decreases, which led to decreased premium on contracts written during the 2015 period.

During the three month periods ended March 31, 2015 and 2014, we earned \$9.8 million and \$10.2 million of reinsurance premiums, respectively. Net premiums earned are primarily a function of the amount and timing of net premiums previously written.

We did not write or earn any reinstatement premiums during the three month periods ended March 31, 2015 and 2014.

Net Income From Derivative Instruments

During the three month periods ended March 31, 2015 and , 2014, our in-force derivative contracts included the 2015 ILW Swap and the 2013 ILW Swap, respectively. Through March 31, 2015 and 2014, we were not aware of any industry loss events occurring that would have triggered a payment obligation under either the 2015 ILW Swap or the 2013 ILW Swap. Accordingly, we recognized less than \$0.1 million and \$0.1 million in net income from these derivative instruments during the three month periods ended March 31, 2015 and 2014, respectively.

See Note 4 of the Notes to Consolidated Financial Statements.

Loss and LAE

During the three month periods ended March 31, 2015 and 2014, we established \$0.9 million of loss and LAE reserves for estimated losses incurred during such periods, nearly all of which constituted IBNR reserves. In addition, during the three month period ended March 31, 2015, we recognized \$0.1 million of favorable loss and LAE reserve development for estimated losses incurred during 2014.

See Note 2 of the Notes to Consolidated Financial Statements.

Reinsurance Acquisition Costs

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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 by reinsurers to ceding companies in the event of favorable loss experience.

The following table summarizes our consolidated reinsurance acquisition costs and the components of our acquisition cost ratio for the three month periods ended March 31, 2015 and 2014:

(\$ in millions)	Three Month Periods Ended March 31,			
	2015		2014	
Commissions, brokerage costs and other	\$ 1.7	17.2%	\$ 1.6	15.2%
Profit commissions	0.6	5.5%	0.6	6.1%
Total reinsurance acquisition costs and associated ratios	\$ 2.3	22.7%	\$ 2.2	21.3%

Our reinsurance acquisition cost ratios attributable to commissions, brokerage costs, fronting fees and other for the three month periods ended March 31, 2015 and 2014, remained fairly consistent from period to period with the modest increase reflecting a higher portion of fronted premiums assumed by us during the 2015 period. Profit commissions, which fluctuate based on our loss experience, added a further 5.5 and 6.1 percentage points to our reinsurance acquisition cost ratios for the three month periods ended March 31, 2015 and 2014, respectively.

Table of Contents***General and Administrative Expenses***

The following table summarizes our consolidated general and administrative expenses and the components of our general and administrative expense ratio for the three month periods ended March 31, 2015 and 2014:

(\$ in millions)	Three Month Periods Ended March 31,					
	2015		2014			
Amounts incurred pursuant to the:						
Investment Management Agreement	\$	0.7	6.8%	\$	0.7	6.4%
Administrative Services Agreement		0.1	1.5%		0.1	1.4%
Underwriting and Insurance Management Agreement		0.1	1.0%			0.1%
Public company expenses		0.4	3.8%		0.3	3.3%
Total general and administrative expenses	\$	1.3	13.1%	\$	1.1	11.2%

See Note 11 of the Notes to Consolidated Financial Statements for further information regarding the nature of the expenses that we incur pursuant to the Investment Management Agreement, the Administrative Services Agreement and the Underwriting and Insurance Management Agreement. During the three month period ended March 31, 2014, we incurred less than \$0.1 million pursuant to the Underwriting and Insurance Management Agreement.

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 increase in these expenses during the first quarter of 2015, versus those of the comparable 2014 period, was due primarily to amortization of the outstanding RSUs issued to the Company's directors in June 2014.

Interest and Financing Expenses

On May 2, 2014, we entered into the Credit Agreement which permits us to borrow up to \$20.0 million on a revolving basis for working capital and general corporate purposes. As of March 31, 2015, we had \$4.0 million of outstanding borrowings under the Credit Agreement.

During the three month period ended March 31, 2015, we incurred interest expense and facility fees associated with the Credit Agreement of less than \$0.1 million.

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 its outstanding borrowings under the Credit Agreement. There are restrictions imposed by the BMA on the payment of dividends and distributions to the Company from its operating subsidiaries as described in Note 10 of the Notes to Consolidated Financial Statements.

The primary sources of cash for the Company's operating subsidiaries are capital contributions, premium collections, issuances of and net income from insurance-linked securities and reinsurance recoveries. The primary uses of cash for the Company's operating subsidiaries are payments of loss and LAE, reinsurance acquisition costs, general and administrative expenses, including fees payable to the Manager, ceded reinsurance, purchases of and net losses from insurance-linked securities and dividends and distributions.

As of March 31, 2015, we held \$7.9 million of cash and cash equivalents of which: (i) \$5.2 million was pledged to trust accounts established for the benefit of third parties; (ii) \$2.6 million was pledged to trust accounts established for the benefit of Blue Water Re (in support of the BW Retrocessional Agreement); and (iii) \$0.1 million represented unencumbered cash on hand.

Table of Contents

As of March 31, 2015, the Company had \$4.0 million of outstanding borrowings under the Credit Agreement which must be repaid or extended, in the form of a new borrowing, no later than November 2, 2015. See Note 7 of the Notes to Consolidated Financial Statements.

The Company intends to repay the remaining \$4.0 million of its outstanding borrowings under the Credit Agreement with funds it expects to receive from Blue Capital Re, which are expected to be made available to Blue Capital Re in the normal course through scheduled releases of funds currently held as collateral.

The Credit Agreement contains covenants that limit the Company's and, to a lesser extent, Montpelier's ability to, among other things, grant liens on its assets, sell assets, merge or consolidate, incur debt and enter into certain transactions with affiliates. The Credit Agreement also contains covenants that require: (i) the Company to maintain a debt to total capitalization ratio less than or equal to 22.5%; (ii) Montpelier to maintain a financial strength rating from Fitch of at least BBB+; and (iii) each of the Company and Montpelier to maintain at least 70% of its net worth as of the date of the Credit Agreement. If the Company or Montpelier were to fail to comply with any of these covenants, the lender could revoke the facility and exercise remedies against the Company or Montpelier. As of March 31, 2015, the Company and Montpelier (as a guarantor) were in compliance with each of the covenants associated with the Credit Agreement.

The Company and Montpelier renewed the Credit Agreement on May 1, 2015 (the Amended Credit Agreement). The Amended Credit Agreement also contains certain financial covenants as well as covenants that limit the Company's and, to a lesser extent, Montpelier's ability, among other things, to grant liens on its assets, sell assets, merge or consolidate, incur debt and enter into certain transactions with affiliates. The covenants associated with the Amended Credit Agreement were, however, amended to permit the agreement to survive the Merger.

During the three month period ended March 31, 2015, we declared: (i) a special dividend with respect to 2014 of \$0.66 per Common Share and RSU, which was paid on March 13, 2015; and (ii) a first quarter 2015 regular dividend of \$0.30 per Common Share and RSU, which was paid on April 15, 2015. The total dollar amount of dividends declared during the three month period ended March 31, 2015 was \$8.4 million.

We intend to continue to make quarterly dividend payments for each of the first three fiscal quarters of each fiscal year, followed by a fourth special dividend after the end of our fiscal year to meet our dividend payout target for each fiscal year. Any future determination to pay dividends 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; and (v) any other factors that the Board deems relevant. We currently expect that our dividends will be subject to customary dividend tax treatment in the U.S., but if our total dividends paid during any given year exceed our current and accumulated earnings and profits as of the end of such year (determined under U.S. tax principles), a portion of our dividends paid in that year will be treated: (i) first, as a nontaxable return of capital, to the extent of a shareholder's tax basis in Common Shares (on a dollar-for-dollar basis); and (ii) subsequently, as capital gain.

Capital Resources

Our total shareholders' equity (or total capital) was \$177.6 million and \$180.5 million at March 31, 2015 and December 31, 2014, respectively. The decrease in our total capital during the three month period ended March 31, 2015 was the result of recording net income of \$5.4 million, recognizing \$0.1 million of additional paid-in capital through the amortization of share-based compensation and declaring \$8.4 million in

dividends to holders of Common Shares and RSUs.

We do not consider our short-term borrowings outstanding under the Credit Agreement to be a component of our capital structure.

Table of Contents

We may need to raise additional capital in the future, by issuing new debt, equity or hybrid securities, in order to enable us to, among other things: write new business; enter into other reinsurance opportunities; cover or pay losses; manage working capital requirements; repurchase Common Shares; respond to, or comply with, any changes in the capital requirements, if any, that the BMA or other regulatory bodies may require; acquire new businesses; or invest in existing businesses. We intend to rely on future offerings of Common Shares to raise additional equity capital; however, we cannot assure you that we will be able to successfully raise additional capital. In the event that we incur indebtedness for any of these purposes or other purposes, we intend to limit our borrowing to an amount no greater than 50% of our shareholders equity at the time of the borrowing. However, subject to the approval of the Board, we may borrow an amount in excess of 50% of our shareholders equity at the time of the borrowing.

The issuance of any new debt, equity or hybrid securities might be on terms and conditions that are unfavorable to our shareholders. Any new issuances of equity or hybrid securities could include the issuance of securities with rights, preferences and privileges that are senior or otherwise superior to those of Common Shares and could be dilutive to our existing shareholders. Any new debt securities may contain terms that materially restrict our operations, including our ability to distribute cash to our shareholders. In addition, if we cannot obtain adequate capital on favorable terms, or at all, our business could be adversely affected.

Collateral Requirements and Restrictions

Each of the reinsurance contracts that Blue Capital Re writes 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).

Each industry loss warranty contract that Blue Capital Re ILS issues is required to be fully-collateralized by cash and cash equivalents. This collateral is not available to Blue Capital Re ILS for any other purpose until the expiration of the applicable industry loss warranty contract (or, in the event of a covered loss, the resolution of such loss under the contract).

Contractual Obligations and Commitments

As of March 31, 2015, the Company had \$4.0 million of outstanding borrowings under the Credit Agreement. This borrowing must be repaid or extended, in the form of a new borrowing, no later than November 2, 2015.

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.

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 March 31, 2015, our total shareholders' equity was \$177.6 million. Assuming that our average total shareholders' equity remains at this level in future periods, we would expect to pay the Manager a Management Fee of approximately \$2.7 million per year 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.

Since the Underwriting and Insurance Management Agreement is dependent on our future performance, we are unable to determine the amount of Performance Fees we would expect to pay the Manager in future periods pursuant to this agreement. To date, we have incurred \$0.1 million in Performance Fees pursuant to this agreement.

Table of Contents

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 \$0.6 million per year in future periods 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 for five years after the completion of the IPO, 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 March 31, 2015, 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 \$9.0 million.

Neither the Company nor its operating subsidiaries had any commitments for operating leases or capital expenditures at March 31, 2015 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.

Off-Balance Sheet Arrangements

As of March 31, 2015, we were not subject to any off-balance sheet arrangements that we believe are material to our investors.

Cash Flows

We experienced a net decrease in our cash and cash equivalents of \$3.6 million and \$44.4 million during the three month periods ended March 31, 2015 and 2014, respectively.

During the three month period ended March 31, 2015, our premium collections and other operating activities exceeded transfers of cash and cash equivalents into trusts established by Blue Water Re and payments of general and administrative expenses by \$6.2 million. We also paid \$5.8 million in dividends to holders of Common Shares and RSUs and repaid \$4.0 million in borrowings under the Credit Agreement during the period.

During the three month period ended March 31, 2014, our transfers of cash and cash equivalents into trusts established by Blue Water Re and payments of general and administrative expenses exceeded our premium collections and other operating activities by \$44.4 million.

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. We believe the items that require the most subjective and complex estimates are: (i) our loss and LAE reserves; and (ii) our written and earned reinsurance premiums. In addition, we qualify as an emerging growth company under the JOBS Act, which significantly affects certain of our reporting requirements.

Our accounting policies for these items are of critical importance to our Consolidated Financial Statements.

Loss and LAE Reserves

As of March 31, 2015 our best estimate for gross and net unpaid loss and LAE reserves was \$7.2 million, with IBNR representing approximately 59% of such reserves.

Table of Contents

Our reserving methodology does not lend itself well to a statistical calculation of a range of estimates surrounding the best point estimate of our loss and loss adjustment expense reserves. Due to the low frequency and high severity nature of claims within much of our business, our reserving methodology principally involves arriving at a specific point estimate for the ultimate expected loss on a contract by contract basis, and our aggregate loss reserves are the sum of the individual loss reserves established.

Further information regarding our loss and LAE reserve estimates is included in the section entitled *Summary of Critical Accounting Estimates* in Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in the 2014 Form 10-K, as filed with the SEC.

Written and Earned Reinsurance Premiums

During the three month periods ended March 31, 2015 and 2014, we wrote \$20.1 million and \$21.8 million in reinsurance premiums, respectively, and earned reinsurance premiums of \$9.8 million and \$10.2 million, respectively.

For reinsurance contracts which incorporate minimum premium amounts, we typically write the entire ultimate premium at inception, and earn the associated premium after the premium is written over the term of the contract. For reinsurance contracts which do not incorporate minimum premium amounts, we typically write the premium over the term of the contract, and earn the associated premium in the same periods that the premium is 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 written when earned.

Detailed information regarding our written and earned reinsurance premiums is included in the section entitled *Summary of Critical Accounting Estimates* in Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in the 2014 Form 10-K, as filed with the SEC.

JOBS Act

The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for an emerging growth company. As an emerging growth company, we are electing not to take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision not to take advantage of the extended transition period is irrevocable.

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We have also determined that, as an emerging growth company, we will not: (i) provide an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b); (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act; (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements; or (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of our Chief Executive Officer's compensation to median employee compensation.

We will continue to be an emerging growth company until the earliest of: (i) the last day of the fiscal year during which we had total annual gross revenues of at least \$1.0 billion (as indexed for inflation); (ii) the last day of the fiscal year following the fifth anniversary of the date of the IPO; (iii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt; and (iv) the date on which we are deemed to be a large accelerated filer, as defined under the Exchange Act.

Since we have elected not to take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards, our Consolidated Financial Statements may not be comparable to those emerging growth companies that have chosen to take advantage of the extended transition period afforded by the JOBS Act.

Table of Contents

Item 3. *Quantitative and Qualitative Disclosures About Market Risk.*

Refer to the 2014 Form 10-K, as filed with the SEC, and in particular Item 7A - *Quantitative and Qualitative Disclosures About Market Risk*. As of March 31, 2015, there were no material changes to our market risks as described in the 2014 Form 10-K, as filed with the SEC.

Item 4. *Controls and Procedures.*

Evaluation of Disclosure Controls and Procedures

Our Principal Executive Officer (*PEO*) and Principal Financial Officer (*PFO*) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of March 31, 2015. Based on that evaluation, our PEO and PFO have concluded that our disclosure controls and procedures are effective.

Changes in Internal Controls

During the three month period ended March 31, 2015, there were no changes in the Company's internal controls that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. *Legal Proceedings.*

We are subject to litigation and arbitration proceedings in the normal course of our business. Such proceedings often involve reinsurance contract disputes which are typical for the reinsurance industry. Our estimates of possible losses incurred in connection with such legal proceedings are provided for as loss and loss adjustment expenses on our Consolidated Statements of Operations and are included within loss and loss adjustment expense reserves on our Consolidated Balance Sheets.

We had no unresolved legal proceedings at March 31, 2015.

Item 1A. *Risk Factors.*

Factors that could cause our actual results to differ materially from those in this report are any of the risks described in Item 1A *Risk Factors* included in the 2014 Form 10-K, as filed with the SEC. Any of these factors could result in a significant or material adverse effect on our results of operations or financial condition.

Additional risks not presently known to us or currently deemed immaterial may also impair our business or results of operations.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds.*

(a) None.

(b) None.

(c) None.

Item 3. *Defaults Upon Senior Securities.*

None.

Item 4. *Mine Safety Disclosures.*

Not applicable.

Item 5. *Other Information.*

(a) On May 1, 2015, the Company entered into the Amended Credit Agreement which permits the Company to borrow up to \$20.0 million on a revolving basis for working capital and general corporate purposes. The Amended Credit Agreement contains certain financial covenants as well as covenants that limit the Company's and, to a lesser extent, Montpelier's ability, among other things, to grant liens on its assets, sell assets, merge or consolidate, incur debt and enter into certain transactions with affiliates.

If the Company or Montpelier fail to comply with any of these covenants, the issuer of the Amended Credit Agreement could revoke the facility and exercise remedies against the Company or Montpelier.

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Montpelier currently owns 33.3% of the Company's outstanding common shares and, pursuant to an existing guarantee agreement, serves as a guarantor of the Company's obligations for this facility and is entitled to receive an annual guarantee fee from the Company equal to 0.125% of the facility's total capacity. See Note 11 of the Notes to Consolidated Financial Statements.

The foregoing description of the Amended Credit Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the operative supporting documents, which is filed as Exhibit 10 to this Quarterly Report on Form 10-Q, respectively.

(b) None.

Table of Contents

Item 6. Exhibits.

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

Exhibit Number	Description of Document
10	First Amendment to the Credit Agreement among the Company, Montpelier and Royal Bank of Canada. (*)
11	Statement Re: Computation of Per Share Earnings (included as Note 6 of the Notes to Consolidated Financial Statements).
31.1	Certification of William Pollett, Chief Executive Officer of Blue Capital Reinsurance Holdings Ltd., pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended. (*)
31.2	Certification of Michael S. Paquette, Chief Financial Officer of Blue Capital Reinsurance Holdings Ltd., pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended. (*)
32	Certifications of William Pollett and Michael S. Paquette, Chief Executive Officer and Chief Financial Officer, respectively, of Blue Capital Reinsurance Holdings Ltd., pursuant to 18 U.S.C. Section 1350. (*)
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Shareholders' Equity; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to Condensed Consolidated Financial Statements. (*)

SIGNATURES

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

BLUE CAPITAL REINSURANCE HOLDINGS LTD.

By: /s/ MICHAEL S. PAQUETTE
 Name: Michael S. Paquette
 Title: Chief Financial Officer
 (Principal Financial Officer)

May 4, 2015