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filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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 1, 2018, the registrant had 8,761,229 common shares outstanding, with a par value of \$1.00 per share ("Common Shares").

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BLUE CAPITAL REINSURANCE HOLDINGS LTD.

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Cautionary Statement Regarding Forward-Looking Statements

Some of the statements under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"). The PSLRA provides a "safe harbor" for forward-looking statements. These forward looking statements reflect our current views with respect to future events and financial performance. Such statements include forward looking statements with respect to us specifically and the insurance and reinsurance business generally, investments, capital markets and the general economic environments in which we operate. Statements which include the words "expect," "intend," "plan," "believe," "project," "anticipate," "seek," "will," and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the PSLRA or otherwise.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements. We believe that these factors include, but are not limited to, the following:

- 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 Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), both of whom are not our direct employees, and our service providers including Blue Capital Management Ltd. (the "Manager") which provides various underwriting, investment and administrative services;
- our ability to effectively execute 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 Sompo International Holdings Ltd. (a wholly owned subsidiary of Sompo Holdings, Inc.) ("Sompo International") and its subsidiaries;
- the cyclical nature of the property catastrophe insurance and reinsurance industry;
- the 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;
- 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;
- the inherent uncertainties in establishing loss and loss adjustment expense ("LAE") reserves and unanticipated adjustments to premium estimates;
- changes in the availability, cost or quality of reinsurance or retrocessional coverage;
- 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;

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- the impact of the United Kingdom's June 2016 referendum on European Union membership and the expected withdrawal of the United Kingdom from the European Union;
- the amount and timing of reinsurance recoveries;
- the effects of competitors' pricing policies, and of changes in laws and regulations on competition, industry consolidation and development of competing financial products;
- the overall level of competition, and the related supply and demand dynamics in our markets relating to growing capital levels in our industry;
- actions by our competitors, many of which are larger or have greater financial resources than we do;
- 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;
- the ability of the counterparty institutions with which we conduct business to continue to meet their obligations to us;
- operational risks, including the risk of fraud and any errors and omissions, as well as technology breaches or failures;
- changes in tax regulations or laws applicable to us, our subsidiaries, brokers or customers;
- our dependence as a holding company upon dividends or distributions from our operating subsidiaries; and
- changes in accounting principles or the application of such principles by regulators.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included herein and in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K") as filed with the Securities and Exchange Commission (the "SEC"), including the risk factors set forth in Item 1A thereof. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments 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.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

BLUE CAPITAL REINSURANCE HOLDINGS LTD.
CONSOLIDATED BALANCE SHEETS

	March 31, 2018	December 31, 2017
(In millions of U.S. dollars, except per share amounts)		
Assets		(Unaudited)
Cash and cash equivalents	\$ 5.5	\$ 6.0
Reinsurance premiums receivable	12.5	11.1
Deferred reinsurance acquisition costs	0.8	0.1
Funds held by ceding companies	157.1	164.8
Other assets	0.2	0.2
Total Assets	\$ 176.1	\$ 182.2
Liabilities		
Loss and loss adjustment expense reserves	\$ 35.5	\$ 43.4
Unearned reinsurance premiums	5.9	1.0
Reinsurance balances payable	6.3	10.1
Other liabilities (See Note 8)	3.4	0.6
Total Liabilities	51.1	55.1
Commitments and contingent liabilities (See Note 9)	—	—
Shareholders' Equity		
Common Shares, at par value - 8,761,229 shares issued and outstanding (2017 - 8,761,229)	8.8	8.8
Additional paid-in capital	165.6	165.6
Retained deficit	(49.4) (47.3)
Total Shareholders' Equity	125.0	127.1
Total Liabilities and Shareholders' Equity	\$ 176.1	\$ 182.2

See notes to the unaudited consolidated financial statements, including Note 8 which describes certain related party transactions.

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UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Three Months Ended March 31,	
(In millions of U.S. dollars, except per share amounts)	2018	2017
Revenues		
Reinsurance premiums written	\$12.5	\$17.0
Change in net unearned reinsurance premiums	(4.9)	(6.8)
Net reinsurance premiums earned	7.6	10.2
Net loss from derivative instruments	—	(0.4)
Net investment income	0.4	0.1
Total revenues	8.0	9.9
Expenses		
Loss and loss adjustment expenses	4.5	1.8
Reinsurance acquisition costs	1.9	2.7
General and administrative expenses	1.1	1.3
Total expenses	7.5	5.8
Net income and comprehensive income	\$0.5	\$4.1
Per share amounts:		
Basic and diluted earnings per Common Share	\$0.06	\$0.47
Dividends declared per Common Share and RSU	0.30	0.89

See notes to the unaudited consolidated financial statements, including Note 8, which describes certain related party transactions.

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BLUE CAPITAL REINSURANCE HOLDINGS LTD.
 UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 Three Months Ended March 31, 2018 and 2017

(In millions of U.S. dollars)	Total shareholders' equity	Common Shares, at par value	Additional paid-in capital	Retained deficit
Balance at January 1, 2018	\$ 127.1	\$ 8.8	\$ 165.6	\$ (47.3)
Net income	0.5	—	—	0.5
Dividends declared - Common Shares and RSUs	(2.6)	—	—	(2.6)
Balance at March 31, 2018	\$ 125.0	\$ 8.8	\$ 165.6	\$ (49.4)

(In millions of U.S. dollars)	Total shareholders' equity	Common Shares, at par value	Additional paid-in capital	Retained earnings
Balance at January 1, 2017	\$ 183.3	\$ 8.8	\$ 165.5	\$ 9.0
Net income	4.1	—	—	4.1
Dividends declared - Common Shares and RSUs	(7.8)	—	—	(7.8)
Balance at March 31, 2017	\$ 179.6	\$ 8.8	\$ 165.5	\$ 5.3

See notes to the unaudited consolidated financial statements, including Note 8, which describes certain related party transactions.

Table of ContentsBLUE CAPITAL REINSURANCE HOLDINGS LTD.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2018 2017	
(In millions of U.S. dollars)		
Cash flows (used in) provided by operating activities:		
Net income	\$0.5	\$4.1
Net change in:		
Loss and loss adjustment expense reserves	(7.9)	(0.2)
Unearned reinsurance premiums	4.9	6.8
Reinsurance balances payable	(3.8)	(5.2)
Deferred reinsurance acquisition costs	(0.7)	(0.9)
Reinsurance premiums receivable	(1.4)	(5.8)
Funds held by ceding companies	7.7	9.5
Other liabilities	0.2	(1.0)
Other assets	—	0.4
Net cash and cash equivalents (used in) provided by operating activities	(0.5)	7.7
Net cash and cash equivalents provided by investing activities	—	—
Cash flows used in financing activities:		
Dividends paid - Common Shares and RSUs	—	(5.2)
Net cash and cash equivalents used in financing activities	—	(5.2)
Net (decrease) increase in cash and cash equivalents during the period	(0.5)	2.5
Cash and cash equivalents - beginning of period	6.0	4.7
Cash and cash equivalents - end of period	\$5.5	\$7.2

See notes to the unaudited consolidated financial statements, including Note 8, which describes certain related party transactions.

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BLUE CAPITAL REINSURANCE HOLDINGS LTD.

Notes to the Unaudited Consolidated Financial Statements

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

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 Waterloo House, 100 Pitts Bay Road, Pembroke, Bermuda HM 08, which is also our registered office.

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 unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements contained in the 2017 Form 10-K. In the opinion of management, these interim unaudited 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. The unaudited consolidated financial statements include the accounts of the Registrant and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. These interim unaudited consolidated financial statements may not be indicative of financial results for the full year. The December 31, 2017 consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all of the disclosures required by GAAP.

There were no material changes in the Company's significant accounting and reporting policies subsequent to the filing of the 2017 Form 10-K.

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 unaudited consolidated financial statements include, but are not limited to, loss and LAE reserves and written and earned reinsurance premiums. Estimates and assumptions are periodically reviewed and the effects of revisions are recorded in the consolidated financial statements in the period that they are determined to be necessary.

The Company 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 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. Blue Capital leverages the reinsurance underwriting expertise and infrastructure of Sompo International and its various subsidiaries to conduct its business. Sompo Holdings, Inc. is the ultimate beneficial owner of 33.2% of the Company's outstanding Common Shares through its ownership of Sompo International.

Subject to the discretion of the Company's board of directors (the "Board"), the Company intends to continue to distribute through dividends or repurchases of Common Shares a minimum of 90% of its annual Distributable Income to its holders of Common Shares and RSUs. "Distributable Income," a non-GAAP measure, means GAAP net income plus (minus) non-cash expenses (revenues) recorded in net income for the period.

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BLUE CAPITAL REINSURANCE HOLDINGS LTD.

Notes to the Unaudited Consolidated Financial Statements

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

NOTE 2. Loss and LAE Reserve Movements

The following table summarizes Blue Capital Re's loss and LAE reserve movements for the three months ended March 31, 2018 and 2017.

(\$ in millions)	Three Months Ended March 31,	
	2018	2017
Gross and net unpaid loss and LAE reserves- beginning	\$43.4	\$11.1
Losses and LAE incurred:		
Current year losses	0.8	1.3
Prior year losses	3.7	0.5
Total incurred losses and LAE	4.5	1.8
Losses and LAE paid and approved for payment:		
Current year losses	—	—
Prior year losses	12.4	2.0
Total losses and LAE paid and approved for payment	12.4	2.0
Gross and net unpaid loss and LAE reserves- ending	\$35.5	\$10.9

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

The uncertainties inherent in the reserving process and potential delays by cedants and brokers in the reporting of loss information, together with the potential for unforeseen adverse developments, may result in loss and LAE reserves ultimately being significantly greater or less than the reserve provided at the end of any given reporting period. 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 months ended March 31, 2018, Blue Capital Re's estimated ultimate loss for prior period accident years was increased by \$3.7 million due to the emergence of claims exceeding previous estimates of losses and LAE related to 2017 catastrophe events, primarily Hurricane Irma, which made landfall in the U.S. in September 2017. During the three months ended March 31, 2017 we recognized \$0.5 million of adverse loss and LAE reserve development for estimated losses incurred during 2016.

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BLUE CAPITAL REINSURANCE HOLDINGS LTD.

Notes to the Unaudited Consolidated Financial Statements

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

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.

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 premiums written by geographic area of risks insured during the three month periods ended March 31, 2018 and 2017:

	Three Months Ended					
	March 31,					
	2018		2017			
Worldwide ⁽¹⁾	\$8.5	68 %	\$11.3	66 %		
USA:						
Nationwide	0.8	6 %	2.6	15 %		
Florida	2.0	16 %	1.7	10 %		
Gulf region	0.1	1 %	—	— %		
California	—	— %	0.3	2 %		
Midwest region and other	0.5	4 %	0.3	2 %		
Northeast	—	— %	—	— %		
Mid-Atlantic region	—	— %	0.3	2 %		
Worldwide, excluding U.S. ⁽²⁾	0.6	5 %	0.5	3 %		
Total premiums written	\$12.5	100%	\$17.0	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.

The following table sets forth a breakdown of Blue Capital's net reinsurance premiums earned by geographic area of risks insured during the three month periods ended March 31, 2018 and 2017:

	Three Months Ended					
	March 31,					
	2018		2017			
Worldwide ⁽¹⁾	\$6.2	82 %	\$8.0	78 %		
USA:						
Nationwide	0.2	2 %	0.7	7 %		
Florida	0.7	9 %	1.1	11 %		
Gulf region	0.1	2 %	—	— %		
California	—	— %	0.1	1 %		
Midwest region and other	0.1	2 %	0.1	1 %		

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Northeast	0.1	1	%	—	—	%
Mid-Atlantic region	—	—	%	0.1	1	%
Worldwide, excluding U.S. ⁽²⁾	0.2	2	%	0.1	1	%
Total net premiums earned	\$7.6	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.

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BLUE CAPITAL REINSURANCE HOLDINGS LTD.

Notes to the Unaudited Consolidated Financial Statements

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

NOTE 4. Derivative Instruments

Outward ILW Swaps

In March 2017 and June 2017, Blue Capital Re ILS entered into various ILW swaps (the "2017 Outward ILW Swaps") with third-parties in order to purchase protection against natural catastrophes across multiple geographic zones from March 2017 to March 2018. In return for fixed payments totaling \$2.0 million, Blue Capital Re ILS was entitled to receive floating payments in the event of certain losses incurred by the insurance industry as a whole. The maximum aggregate potential recovery to Blue Capital Re ILS from the 2017 Outward ILW Swaps was \$9.0 million.

As a result of catastrophe events occurring during 2017, a recovery was triggered on the 2017 Outward ILW Swaps resulting in the settlement of \$4.7 million to Blue Capital Re ILS.

The 2017 Outward ILW Swaps are valued on the basis of modeling developed by the Manager, which represents unobservable (Level 3) inputs. As of March 31, 2018 and December 31, 2017, the fair value of the 2017 Outward ILW Swaps was nil.

In April 2016, Blue Capital Re ILS entered into various outward ILW swaps (the "2016 Outward ILW Swaps") with third-parties in order to purchase protection against natural catastrophes across multiple geographic zones from April 2016 to April 2017. In return for fixed payments totaling \$2.0 million, Blue Capital Re ILS was entitled to receive floating payments in the event of certain losses incurred by the insurance industry as a whole. The maximum aggregate potential recovery to Blue Capital Re ILS from the 2016 Outward ILW Swaps was \$9.0 million. At expiry there were no industry loss events occurring which would have triggered a recovery under the 2016 Outward ILW Swaps.

The 2016 Outward ILW Swaps were valued on the basis of modeling developed by the Manager, which represents unobservable (Level 3) inputs. As of March 31, 2018 and December 31, 2017, the fair value of the Outward ILW Swaps was nil.

During the three months ended March 31, 2018 and 2017, Blue Capital Re ILS recognized a loss from derivative instruments of less than \$0.1 million and \$0.4 million, respectively, pursuant to the Outward ILW Swaps.

The Company did not enter into any ILW swap contracts in 2018.

NOTE 5. 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 7. For all periods presented in which RSUs were outstanding, the two-class method was used to determine basic and diluted earnings per Common Share since this method yielded a more dilutive result than the treasury stock method.

For purposes of determining basic and diluted earnings per Common Share, a portion of net income is allocated to outstanding RSUs which 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 per Common Share numerators in any

period in which it incurs a net loss.

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BLUE CAPITAL REINSURANCE HOLDINGS LTD.

Notes to the Unaudited Consolidated Financial Statements

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

NOTE 5. Basic and Diluted Earnings per Common Share , cont'd

The following table outlines the Company's computation of its basic and diluted earnings per Common Share for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
Net income	\$0.5	\$4.1
Less: net earnings allocated to participating securities ⁽¹⁾	—	—
Earnings per Common Share numerator	\$0.5	\$4.1
Average Common Shares outstanding (in thousands of shares)	8,761	8,756
Basic and diluted earnings per Common Share	\$0.06	\$0.47

⁽¹⁾ During the three month periods ended March 31, 2018 and 2017, the net earnings allocated to participating securities totaled less than \$0.1 million.

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, 2018 and 2017. In addition, in February 2017, the Company declared a special dividend with respect to its 2016 Distributable Income of \$0.59, per Common Share and RSU. As of March 31, 2018, the Company had \$2.6 million of dividends payable to holders of Common Shares and RSUs, which is included within "other liabilities" on its Unaudited Consolidated Balance Sheet at that date. As of December 31, 2017, the Company had no dividends payable to holders of Common Shares and RSUs.

The total amount of dividends paid to holders of Common Shares and RSUs during the three month periods ended March 31, 2018 and 2017 was nil and \$5.2 million, respectively.

There are restrictions on the payment of dividends by the Company, Blue Capital Re and Blue Capital Re ILS. 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.

NOTE 6. Credit Facility

On May 6, 2016, the Company entered into a credit facility (the "2016 Credit Facility") with Endurance Investment Holdings Ltd. (the "Lender"), a wholly-owned subsidiary of Sompo International. The 2016 Credit Facility provides the Company with an unsecured \$20.0 million revolving credit facility for working capital and general corporate purposes and expires on September 30, 2018. Borrowings under the 2016 Credit Facility bear interest, set at the time of the borrowing, at a rate equal to the applicable LIBOR rate plus 150 basis points. A one-time fee of \$20,000 was due to the Lender in connection with establishing the 2016 Credit Facility.

The 2016 Credit Facility contains covenants that limit the Company's ability, among other things, to grant liens on its assets, sell assets, merge or consolidate, or incur debt. If the Company fails to comply with any of these covenants, the Lender could revoke the facility and exercise remedies against the Company.

In addition, in the event of a default in the performance of any of the agreements or covenants under certain management agreements with the Manager by the Company, the Lender has the right to terminate the 2016 Credit Facility. As of March 31, 2018, the Company was in compliance with all of its respective covenants associated with the 2016 Credit Facility.

As of March 31, 2018 and December 31, 2017, the Company had no outstanding borrowings under the 2016 Credit Facility.

During each of the three month periods ended March 31, 2018 and 2017, the Company paid no interest on its borrowings under the 2016 Credit Facility.

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BLUE CAPITAL REINSURANCE HOLDINGS LTD.

Notes to the Unaudited Consolidated Financial Statements

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

NOTE 6. Credit Facility, cont'd.

During the three month periods ended March 31, 2018 and 2017, the Company incurred no facility or structuring fees in connection with the 2016 Credit Facility.

NOTE 7. 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.

There were no awards or forfeitures of RSUs and no RSUs vested during the three months ended March 31, 2018 and 2017.

During each of the three months ended March 31, 2018 and 2017, the Company recognized less than \$0.1 million of RSU expense. At March 31, 2018 compensation costs not yet recognized related to unvested RSUs was \$0.1 million.

As of March 31, 2018 and December 31, 2017, there were 12,188 RSUs outstanding under the 2013 LTIP.

NOTE 8. Related Party Transactions

As of March 31, 2018 and December 31, 2017, Sompo International and its wholly owned subsidiary, Endurance Specialty Insurance Ltd. ("Endurance Bermuda"), owned 33.2% of the Company's outstanding Common Shares. See Note 1.

Through each of the following roles and relationships, Blue Capital leverages Sompo International's reinsurance underwriting expertise and infrastructure to conduct its business: (i) the Manager, a wholly-owned subsidiary of Sompo International, manages Blue Capital Re's and Blue Capital Re ILS's reinsurance underwriting decisions; (ii) Blue Water Re Ltd. ("Blue Water Re") is a significant source of reinsurance business for Blue Capital Re; (iii) Sompo

International's General Counsel serves as a director; (iv) the Manager's Treasurer serves as the Company's CFO; and (v) Sompo International's Chief Financial Officer is the Manager's CEO, the CEO of the Company and serves as the Company's Chairman of the Board.

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

Services Provided to Blue Capital by Sompo International

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

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

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BLUE CAPITAL REINSURANCE HOLDINGS LTD.

Notes to the Unaudited Consolidated Financial Statements

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

NOTE 8. Related Party Transactions, cont'd

Pursuant to the BW Retrocessional Agreement, Blue Capital Re may participate in: (i) retrocessional, quota share or other agreements between Blue Water Re and Endurance Bermuda or 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 Endurance Bermuda 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 (the "Investment Management Agreement") with the Manager. Pursuant to the terms of the Investment Management Agreement, the Manager has full discretionary authority, including the delegation of the provision of its services, to manage the Company's assets, subject to the Company's underwriting guidelines, the terms of the Investment Management Agreement and the oversight of the Board.

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

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

Credit Facility Agreement. The Company entered into the 2016 Credit Facility with Endurance Investment Holdings Ltd. (the "Lender"), a subsidiary of Sompo International, on May 6, 2016. The 2016 Credit Facility provides the Company with an unsecured \$20.0 million revolving credit facility for working capital and general corporate purposes and expires on September 30, 2018.

Fees Incurred Pursuant to the Aforementioned Agreements

During the three months ended March 31, 2018, the Company incurred general and administrative expenses of: (i) \$0.5 million pursuant to the Investment Management Agreement; (ii) \$0.1 million pursuant to the Administrative Services Agreement; and (iii) nil pursuant to the Underwriting and Insurance Management Agreement.

During the three months ended March 31, 2017, the Company incurred general and administrative expenses of: (i) \$0.7 million pursuant to the Investment Management Agreement; (ii) \$0.1 million pursuant to the Administrative Services Agreement; and (iii) \$0.1 million pursuant to the Underwriting and Insurance Management Agreement.

During each of the three months ended March 31, 2018 and 2017, the Company incurred fees of nil related to the Credit Facilities. See Note 6.

As of March 31, 2018 and December 31, 2017, the Company owed Sompo International \$0.8 million and \$0.7 million for the services performed pursuant to the aforementioned agreements, respectively, which are included within "other liabilities" on the Company's Consolidated Balance Sheets at those dates.

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BLUE CAPITAL REINSURANCE HOLDINGS LTD.

Notes to the Unaudited Consolidated Financial Statements
(in millions of United States dollars, except share and per
share amounts or as otherwise indicated)

NOTE 9. Commitments and Contingent Liabilities

Commitments

As of March 31, 2018 and December 31, 2017, 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 on November 5, 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 \$6.3 million as of March 31, 2018).

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.

Amounts Held in Trust for the Benefit of Ceding Companies

As of March 31, 2018 and December 31, 2017, Blue Capital Re ILS did not have any cash and cash equivalents pledged to trust accounts established for the benefit of third parties.

As of March 31, 2018 and December 31, 2017, Blue Capital had transferred \$157.1 million and \$164.8 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 8. These amounts are presented on the Company's Consolidated Balance Sheets as "funds held by ceding companies."

Litigation

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

or settlement occurs.

Blue Capital Re, pursuant to the BW Retrocessional Agreement, has provided for a reinsurance recovery totaling \$5.0 million through its participation in an Industry Loss Warranty protection purchased by Blue Water Re. The counterparty to the Industry Loss Warranty contract has disputed the claim for the recovery, which is based upon the size of an insured industry loss calculated based upon third-party data. Blue Water Re is vigorously pursuing recovery in this action. In the course of litigation and arbitration, we may engage in discussions with opposing counsel for possible resolution. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or a settlement for significantly less than the contested amount, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment or settlement occurs.

The Company and its subsidiaries had no other unresolved legal proceedings at March 31, 2018 and December 31, 2017.

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BLUE CAPITAL REINSURANCE HOLDINGS LTD.

Notes to the Unaudited Consolidated Financial Statements

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

NOTE 9. Commitments and Contingent Liabilities, cont'd

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.

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 10. 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 outstanding borrowings under the Credit Facilities. At March 31, 2018 and December 31, 2017, the Company had no outstanding borrowings under the Credit Facilities. See Note 6.

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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, 2018 and 2017, and our financial condition as of March 31, 2018 and December 31, 2017. 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 2017 Form 10-K, as filed with the SEC.

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 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.

Subject to the discretion of the Company's board of directors (the "Board"), the Company intends to continue to distribute through dividends or repurchases of Common Shares a minimum of 90% of its annual Distributable Income to its holders of Common Shares and RSUs. "Distributable Income," a non-GAAP measure, means GAAP net income plus (minus) non-cash expenses (revenues) recorded in net income for the period.

The majority of our property catastrophe business is originated during the key January and June annual renewal periods.

During the three months ended March 31, 2018, results were adversely impacted by an increase in reported losses related to Hurricane Irma, which made landfall in the U.S. in September 2017, as claim settlements and related loss adjustment expenses were greater than originally expected. For the period, we recorded net income of \$0.5 million and declared regular cash dividends of \$0.30 per Common Share and RSU. During the January 1, 2018 renewal period, pricing reflected the impact of the 2017 loss events as our renewing business experienced an overall price increase of approximately 12% reflecting a reversal of pricing declines experienced in recent years.

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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, 2018 and 2017 were as follows:

(\$ in millions)	Three Months Ended March 31,	
	2018	2017
Revenues		
Reinsurance premiums written	\$12.5	\$17.0
Change in net unearned reinsurance premiums	(4.9)	(6.8)
Net reinsurance premiums earned	7.6	10.2
Net loss from derivative instruments	—	(0.4)
Net investment income	0.4	0.1
Total revenues	8.0	9.9
Expenses		
Loss and LAE - current year losses	0.8	1.3
Loss and LAE - prior year losses	3.7	0.5
Reinsurance acquisition costs	1.9	2.7
General and administrative expenses	1.1	1.3
Total expenses	7.5	5.8
Net income and comprehensive income	\$0.5	\$4.1
Loss and LAE ratio	58.5 %	17.1 %
Reinsurance acquisition cost ratio	24.7 %	26.5 %
General and administrative expense ratio	14.8 %	12.9 %
GAAP combined ratio	98.0 %	56.5 %

Reinsurance Premiums Written and Earned

During the three months ended March 31, 2018 and 2017, we wrote \$12.5 million and \$17.0 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 three months of 2018 versus that of the comparable 2017 period was driven by a smaller capital base and participation in greater cessions to third party reinsurers by Blue Water Re, partially offset by an average risk adjusted price increase of 12% during the January renewals.

Our reinsurance premiums written and earned include \$0.3 million in reinstatement premium accruals for the three month period ended March 31, 2018 (2017- \$0.1 million).

Net premiums earned during the three month period ended March 31, 2018 were lower than that of the comparable 2017 period mainly due to the lower written premium base. In addition, during 2017 there was an acceleration of earning of premiums on contracts that experienced full limit losses during 2017 which would otherwise have earned in

the current period.

See Note 3 of the Notes to the Unaudited Consolidated Financial Statements.

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Net Gain or Loss from Derivative Instruments

During the three month period ended March 31, 2018, our in-force derivative contracts included the 2017 Outward ILW Swaps.

During the three month period ended March 31, 2017, our in-force derivative contracts included the 2016 Outward ILW Swaps, partially offset by the 2016 Inward ILW Swap.

During the three month periods ended March 31, 2018 and 2017, we recognized less than \$0.1 million and \$0.4 million of net loss from derivative instruments, respectively. The Company did not enter into any ILW swap contracts in 2018.

See Note 4 of the Notes to the Unaudited Consolidated Financial Statements.

Loss and LAE

The following table summarizes the components of our consolidated loss and LAE incurred and our loss and LAE ratios for the three month periods ended March 31, 2018 and 2017:

(\$ in millions)	Three Months Ended March 31,	
	2018	2017
Loss and LAE incurred - current year	\$0.8	\$1.3
Loss and LAE incurred - prior year	3.7	0.5
Total loss and LAE incurred	\$4.5	\$1.8
Loss and LAE ratio	58.5 %	17.1 %

During the three months ended March 31, 2018 and 2017, we established \$0.8 million and \$1.3 million of loss and LAE reserves, respectively, for the current year, nearly all of which constituted IBNR reserves. There were no individually significant loss events that impacted us during the three month periods ended March 31, 2018 and 2017.

During the three months ended March 31, 2018, we recognized \$3.7 million of net adverse loss and LAE reserve development for estimated losses as reported losses and claims settlements in the period related primarily to Hurricane Irma exceeded our previous estimates. In addition, during the three months ended March 31, 2017 we recognized \$0.5 million of adverse loss and LAE reserve development for estimated losses incurred during 2016.

Reinsurance Acquisition Costs

The following table summarizes our consolidated reinsurance acquisition costs and our reinsurance acquisition cost ratios for the three month periods ended March 31, 2018 and 2017:

(\$ in millions)	Three Months Ended March 31,	
	2018	2017
Commissions, brokerage costs, fronting fees and other	\$1.9	\$2.0
Profit commissions	—	0.7
Total reinsurance acquisition costs	\$1.9	\$2.7
Reinsurance acquisition cost ratio	24.7 %	26.5 %

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

Our reinsurance acquisition costs relating to commissions, brokerage costs, fronting fees and related costs for the three months ended March 31, 2018, were comparable to the costs incurred during the 2017 period. In the three months ended March 31, 2018, there were reduced profit commissions, as a result of the reduced profitability from the Sompo International Quota Share Agreement driven by the third quarter 2017 catastrophe events.

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General and Administrative Expenses

The following table summarizes our consolidated general and administrative expenses and our general and administrative expense ratios for the three month periods ended March 31, 2018 and 2017:

(\$ in millions)	Three Months Ended March 31,	
	2018	2017
Investment Management Agreement fees	\$0.5	\$0.7
Administrative Services Agreement fees	0.1	0.1
Underwriting and Insurance Management Agreement fees	—	0.1
Public company expenses	0.5	0.4
Total general and administrative expenses	\$1.1	\$1.3
General and administrative expense ratio	14.8 %	12.9 %

See Note 8 of the Notes to the Unaudited Consolidated Financial Statements for further information regarding the nature of the expenses that we incur pursuant to the agreements with the Manager and other affiliates of Somp International.

The expenses we have incurred pursuant to the Investment Management Agreement have decreased moderately from prior year, due to the decrease in the equity base of the Company. During the three month period ended March 31, 2018, we incurred no performance fees (2017- \$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. These expenses increased in 2018 compared to 2017 as a result of higher legal expenses.

Income Taxes

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

Exposure Management

The following discussion should be read in conjunction with Item 1A "Risk Factors" included in the 2017 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."

The Manager monitors our net exposure to any one catastrophe loss event in any single zone within certain broadly defined major catastrophe zones at each treaty renewal date. The last major treaty renewal date was January 1, 2018. Our January 1, 2018 estimated net exposures by zone were in compliance with our underwriting guidelines. Namely, our estimated net exposure from any one catastrophe loss event in any individual zone was at or below 50% of our then-projected March 31, 2018 shareholders' equity.

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

North America: Europe: Rest of World:

U.S. - Northeast Western Central Europe⁽¹⁾ Australia

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U.S. - Mid-Atlantic	Eastern Europe	New Zealand
U.S. - Florida	Southern Europe	Japan
U.S. - Gulf	Northern Europe, Benelux	South America
U.S. - New Madrid	and Scandinavia	Middle East
U.S. - Midwest	U.K. and Ireland	
U.S. - California		
U.S. - Hawaii		
Canada - Eastern		
Canada - Western		

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

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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 estimated 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.

On January 1, 2018, our estimated 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 then-projected March 31, 2018 shareholders' equity, and the estimated 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 then-projected March 31, 2018 shareholders' equity.

Single Event Loss Projections

The table that follows details our estimated net impact from single event losses as of January 1, 2018 for selected zones at specified return periods using industry-recognized third-party vendor models. The values noted take into account the impact of the 2017 third quarter loss events on our limits reinsured and shareholders' equity. It is important to note that each catastrophe model we use contains its own assumptions as to the frequency and severity of loss events, and results may vary significantly from model to model.

Net Impact from Single Event Losses at Specified Return Periods

	Net Impact (Millions)	Return Period ⁽¹⁾	Percentage of March 31, 2018 Shareholders' Equity	
U.S. - Florida hurricane	\$ 34	1 in 100 year	27	%
U.S. - California earthquake	24	1 in 250 year	19	%
Japan earthquake	20	1 in 250 year	16	%
U.S. - Gulf hurricane	19	1 in 100 year	15	%
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 an estimated 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 an estimated 0.4% chance in any given year that this level will be exceeded.

Our estimates 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 the time of such estimates. 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, 2018 to March 31, 2018.

Liquidity and Capital Resources

Liquidity

The Company has no operations of its own and relies on dividends and distributions from Blue Capital Re to pay its expenses and to repay any outstanding borrowings under the Credit Agreements, as well as to fund the payment of any dividends to its shareholders or share repurchase programs. The ability of Blue Capital Re to pay dividends is dependent on its ability to meet the requirements of applicable Bermuda law and regulations. Under Bermuda law, Blue Capital Re may not

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declare or pay a dividend to the Company if there are reasonable grounds for believing that Blue Capital Re is, or would after the payment be, unable to pay its liabilities as they become due, or the realizable value of Blue Capital Re's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Further, Blue Capital Re, as a regulated insurance company in Bermuda, is subject to additional regulatory restrictions on the payment of dividends or distributions. As a result of the net loss recorded in the third quarter of 2017, until such time as Blue Capital Re extinguishes its retained deficit position, the payment of dividends are subject to return of capital restrictions. Blue Capital Re may not reduce its total statutory 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 statutory capital consists of Blue Capital Re's paid in share capital, its contributed surplus (sometimes called additional paid in capital) and any other fixed capital designated by the BMA as statutory capital. As of March 31, 2018, Blue Capital Re could pay a dividend or return additional paid-in capital totaling approximately \$20.6 million (December 31, 2017 – \$23.9 million) without prior regulatory approval based upon Bermuda law and regulations.

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 reserves, reinsurance acquisition costs, general and administrative expenses, ceded reinsurance, purchases of and net losses from insurance-linked securities and dividends and distributions.

As of March 31, 2018, we held \$5.5 million of cash and cash equivalents, which was entirely unencumbered cash on hand.

On May 6, 2016, the Company entered into a credit facility (the "2016 Credit Facility") with Endurance Investment Holdings Ltd. (the "Lender"), a wholly-owned subsidiary of Sompo International. The 2016 Credit Facility provides the Company with an unsecured \$20.0 million revolving credit facility for working capital and general corporate purposes and expires on September 30, 2018. Borrowings under the 2016 Credit Facility bear interest, set at the time of the borrowing, at a rate equal to the applicable LIBOR rate plus 150 basis points. A one-time fee of \$20,000 was due to the Lender in connection with establishing the 2016 Credit Facility. The 2016 Credit Facility contains covenants that limit the Company's ability, among other things, to grant liens on its assets, sell assets, merge or consolidate, or incur debt. If the Company fails to comply with any of these covenants, the Lender could revoke the facility and exercise remedies against the Company. In addition, in the event of a default in the performance of any of the agreements or covenants under certain management agreements with the Manager by the Company, the Lender has the right to terminate the 2016 Credit Facility. As of March 31, 2018, the Company was in compliance with all of its respective covenants associated with the 2016 Credit Facility.

As of March 31, 2018, we had no outstanding borrowings under the 2016 Credit Facility. See Note 6 of the Notes to the Unaudited Consolidated Financial Statements.

During the three month period ended March 31, 2018, we declared a first quarter 2018 regular dividend of \$0.30 per Common Share and RSU, which was paid on April 13, 2018. The total dollar amount of dividends paid during the three month period ended March 31, 2018 was nil.

We intend to continue to distribute a minimum of 90% of annual Distributable Income by making quarterly dividend payments for each of the first three fiscal quarters of each fiscal year, followed by either repurchases of Common Shares or payment of a fourth "special" dividend after the end of our fiscal year. Any future determination to pay dividends or repurchase Common Shares will remain at the discretion of the Board and will be dependent upon many factors, including: (i) our financial condition, liquidity, results of operations (including our ability to generate cash flow in excess of our expenses) and capital requirements; (ii) general business conditions, (iii) legal, tax and

regulatory limitations; (iv) contractual prohibitions and other restrictions; (v) trading price of the Company's Common Shares as compared to the Company's book value per share; and (vi) any other factors that the Board deems relevant. We generally 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 \$125.0 million and \$127.1 million as of March 31, 2018 and December 31, 2017, respectively. Our total capital decreased during the three month period ended March 31, 2018 as a result of the declaration of \$2.6 million in dividends to holders of Common Shares and RSUs, partially offset by net income of \$0.5 million.

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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). As a result of the significant losses incurred from the catastrophe events of the third quarter 2017, in line with the contractual requirements for buffer loss provisions in the treaties that the Company enters into, collateral that we would typically expect to be available at the key 2018 renewal dates will not be available for deployment. Management estimates that as of June 1, 2018 approximately 9% of projected shareholders' equity will be unavailable for deployment as a result of buffer loss provision terms. We expect this locked up collateral will be released systematically through the course of 2018 and 2019.

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, 2018, we had no outstanding borrowings under the 2016 Credit Facility. See Note 6 of the Notes to the Unaudited Consolidated Financial Statements.

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 and the 2016 Credit Facility with the Lender.

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, 2018, our total shareholders' equity was \$125.0 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 \$1.9 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.

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As a result of the net loss recorded in the year ended December 31, 2017, management estimates that the Company will not pay a Performance Fee in 2018 or 2019 due to the rolling three year high water mark provision.

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 CFO, 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.

Credit Facility Agreement. The 2016 Credit Facility provides the Company with an unsecured \$20.0 million revolving credit facility for working capital and general corporate purposes and expires on September 30, 2018.

Borrowings under the 2016 Credit Facility will bear interest, set at the time of the borrowing, at a rate equal to the LIBOR rate plus 150 basis points. Upon consummation of the 2016 Credit Facility, a one-time fee of \$20,000 was due to the Lender in connection with the set-up of the facility.

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. In addition, if the Investment Management Agreement, the Underwriting and Insurance Management Agreement, or the Administrative Services Agreement is terminated for any reason, the Lender may terminate the 2016 Credit Facility and we would be required to repay any outstanding amounts under the 2016 Credit Facility.

As of March 31, 2018, 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 \$6.3 million.

Neither the Company nor its operating subsidiaries had any commitments for operating leases or capital expenditures at March 31, 2018 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, 2018, we were not subject to any off-balance sheet arrangements that we believe are material to our investors.

Cash Flows

Three
Months
Ended
March 31,

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(\$ in millions)	2018	2017
Net cash (used in) provided by operating activities	\$(0.5)	\$7.7
Net cash used in financing activities	—	(5.2)
Net (decrease) increase in cash and cash equivalents	(0.5)	2.5
Cash and cash equivalents, beginning of period	6.0	4.7
Cash and cash equivalents, end of period	\$5.5	\$7.2

We experienced a net decrease of \$0.5 million and net increase of \$2.5 million in our cash and cash equivalents during the three month periods ended March 31, 2018 and 2017, respectively.

During the three months ended March 31, 2018, payments of general and administrative expenses was the primary contributor to the cash used in operating activities of \$0.5 million.

During the three months ended March 31, 2017, our premium collections, net releases of cash and cash equivalents from trusts established by Blue Water Re and cash inflows from other operating activities exceeded our payments of general and administrative expenses by \$7.7 million. We also paid \$5.2 million in dividends to holders of Common Shares and RSUs.

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Summary of Critical Accounting Policies and Estimates

Our Unaudited 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 Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), which significantly affects certain of our reporting requirements.

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

Loss and LAE Reserves

As of March 31, 2018 our best estimate for gross and net unpaid loss and LAE reserves was \$35.5 million, with IBNR representing approximately 38% of such reserves.

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 Policies and Estimates" in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the 2017 Form 10-K, as filed with the SEC.

Written and Earned Reinsurance Premiums

During the three month periods ended March 31, 2018 and 2017, we wrote \$12.5 million and \$17.0 million in reinsurance premiums, respectively, and earned reinsurance premiums of \$7.6 million and \$10.2 million, respectively.

For reinsurance contracts which incorporate minimum premium amounts, we typically write the entire 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 Policies and Estimates" in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the 2017 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.

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

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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 CEO'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) December 31, 2018; (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 Unaudited 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.

The Company is making the appropriate preparations to enable it to comply with the required added reporting requirements once it no longer qualifies as an emerging growth company.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Refer to the 2017 Form 10-K, as filed with the SEC, and in particular Item 7A - "Quantitative and Qualitative Disclosures about Market Risk." As of March 31, 2018, there were no material changes to our market risks as described in the 2017 Form 10-K, as filed with the SEC.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

(b) Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's first fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Blue Capital Re, pursuant to the BW Retrocessional Agreement, has provided for a reinsurance recovery totaling \$5.0 million through its participation in an Industry Loss Warranty protection purchased by its affiliate, Blue Water Re. The counterparty to the Industry Loss Warranty contract has disputed the claim for the recovery, which is based upon the result of the size of an insured industry loss calculated based upon third party data. Blue Water Re is vigorously pursuing recovery in this action. In the course of litigation and arbitration, we may engage in discussions with opposing counsel for possible resolution. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or a settlement for significantly less than the contested amount, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment or settlement occurs.

Currently, there is no litigation pending or, to the knowledge of management, contemplated against us or any of our officers or directors in their capacity as such.

Item 1A. Risk Factors.

Before investing in any of our securities, you should carefully consider the risk factors and all other information set forth in our 2017 Form 10-K. These risks could materially affect our business, results of operations or financial condition and cause the trading price of our securities to decline. You could lose all or part of your investment.

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) None.

(b) None.

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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

- 11 Statement Re: Computation of Per Share Earnings (included as Note 5 of the Notes to the Unaudited Consolidated Financial Statements).
- 31.1 Certification of Michael J. McGuire, CEO 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 Greg A. Garside, CFO 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 Michael J. McGuire and Greg A. Garside, CEO and CFO, 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, 2018 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as at March 31, 2018 (unaudited) and December 31, 2017; (ii) the Unaudited Consolidated Statements of Income and Comprehensive Income; (iii) the Unaudited Consolidated Statements of Changes in Shareholders' Equity; (iv) the Unaudited Consolidated Statements of Cash Flows; and (v) the Notes to the Unaudited 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/ GREG A. GARSIDE

Name: Greg A. Garside
Title: Chief Financial Officer
(Principal Financial Officer)

May 8, 2018