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**CIRCULAR
TO ALL KNOWN INVESTORS**

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December 15, 2021

Blue Capital Reinsurance Holdings Limited (in liquidation) (“the Company”)

The purpose of this circular is to provide investors with an update on the liquidation of the Company and to inform investors of a proposed commutation which Blue Capital Re Ltd. (in liquidation) (“Blue Capital Re”) intends to enter into with Blue Water Re Ltd (“Blue Water Re”).

The effect of this commutation will be to remove the ongoing obligations of Blue Capital Re to Blue Water Re. This in turn shall enable the return of all residual capital to the Company (net of remaining exposure on the underlying insurance contracts) and enable finalization of the liquidation of the Company.

Background of the liquidation

The Company is a Bermuda exempted limited liability company that, through its subsidiaries, offered collateralized reinsurance in the property catastrophe market and invested in various insurance-linked securities. The Company was incorporated under the laws of Bermuda on June 24, 2013 and commenced its operations on November 12, 2013.

The Company operated principally through its wholly-owned subsidiary Blue Capital Re, a Bermuda Class 3A insurer, which provided collateralized reinsurance through its participation in a retrocessional contract dated December 31, 2013 (the “BW Retrocessional Agreement”) with Blue Water Re. Blue Water Re underwrote and entered into collateralized reinsurance contracts with Sompo International Holdings Ltd. and other third-party insurance companies. A portion of the associated risks and premiums were then allocated to Blue Capital Re by way of the BW Retrocessional Agreement. Under this agreement, Blue Capital Re accepted risks from Blue Water Re in exchange for the corresponding premiums relating to the accepted risks.

Following the decision by management to place the Company in run-off on July 24, 2019, shareholders subsequently approved the winding-up of the Company at a Special General Meeting on July 28, 2020 and it was subsequently placed into Members Voluntary Liquidation. The purpose of the liquidation was to enable the orderly run-off and closure of the Company in the most cost-efficient manner possible.

During the liquidation the Company, through its Joint Liquidators, have continued to provide quarterly reporting of the Net Assets in Liquidation (“NAV”) of the Company and regular distributions of surplus capital to shareholders have been made.

Over 64% of the Company’s surplus assets have now been returned to investors through these distributions during the Members Voluntary Liquidation and 92% of surplus assets have been distributed back to investors since the Company was placed in run-off. As of September 30, 2021, the Company’s remaining gross assets totalled US\$6.1 million, of which US\$4.1million was held in collateral trusts for the benefit of the cedants.



The September 30, 2021 (Q3) unaudited NAV of the Company reported to investors on October 29, 2021 was US\$1.3 million or US\$0.15 per ordinary share.

As a result of the small residual assets and liabilities in the Company and the uncertainty of timing as to when the claims will run-off, the Joint Liquidators and the Company's investment manager have evaluated options available to reach an early conclusion of the liquidation to avoid unnecessary erosion of investors assets through ongoing costs.

Initially, Blue Water Re was tasked with attempting to commute the remaining obligations with the underlying cedants. While the majority of commutations were achieved, other cedants do not wish to commute and instead require the collateral to remain available to fund losses as they are paid out.

As an alternative option to reach finality Blue Capital Re intends to commute the remaining loss liabilities with Blue Water Re under the BW Retrocessional Agreement. This will achieve the result of enabling a release of surplus assets for distribution to the Company's investors.

Assessment of the proposed commutation between Blue Capital Re and Blue Water Re.

The proposed commutation is to be based on reported loss reserve figures. There is a possibility that those reported loss reserves may ultimately be higher or lower than ultimate losses. The risk that the Joint Liquidators have identified for the Company's investors arises, should ultimate losses be lower than the current reported reserves, as this would mean that the Company's investors assets will have been eroded due to an overpayment as a result of the commutation.

The Joint Liquidators have considered this risk in relation to the likely timing of a natural run-off of the liabilities and the corresponding administration costs of keeping the liquidation open. The timing of the run-off of these residual claims is highly uncertain and may take several years. The Joint Liquidators have evaluated the risk of positive reserve development weighed against the ongoing administration costs within the liquidation and believe that the commutation is in the best interests of the Company's investors.

As evidenced by the table below, the current unaudited NAV would be completely eroded by June 2024 if claims remain open at that point. Further, in order that the final NAV were to be improved over the current position while assuming the residual run-off were to take 3 years, positive reserve development in excess of 59% would be required. The table shows an estimated projection of the Company's run-off assuming no changes to currently stated loss reserves.

Table – Estimate of Company Run-Off

| (In thousands of U.S. dollars) | 2021 | 2022 | | | | 2023 | | | | 2024 | |
|--------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| NAV b/f | 1,320 | 1,320 | 1,179 | 1,059 | 944 | 829 | 662 | 533 | 408 | 283 | 116 |
| Expenses | (128) | (167) | (129) | (125) | (125) | (167) | (129) | (125) | (125) | (167) | (337) |
| Release of accrued expense provision | 128 | 25 | 10 | 10 | 10 | - | - | - | - | - | 207 |
| NAV c/f | 1,320 | 1,179 | 1,059 | 944 | 829 | 662 | 533 | 408 | 283 | 116 | (13) |



Action required

The Joint Liquidators are reporting these developments on the basis that it is material to the remaining liquidation process. No action is required from you unless you object to the proposed commutation. Should you object, then the Joint Liquidators request that you notify them within 14 days of the date of this circular providing reasons for your objection.

Should no objections be received within the 14 day period the Joint Liquidators shall confirm their support of the proposed commutation.

Once the commutation is completed the Joint Liquidators shall be in a position to move towards closure of the liquidation.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Mark Allitt', written over a horizontal line.

Mark Allitt
Joint Liquidator