Greenlight Capital Re, Ltd.
Form 10-Q
August 03, 2009

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

# FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from to

Commission file number 001-33493

GREENLIGHT CAPITAL RE, LTD.
(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| CAYMAN ISLANDS | N/A |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| THE GRAND PAVILION<br>802 WEST BAY ROAD<br>P.O. BOX 31110<br>GRAND CAYMAN<br>CAYMAN ISLANDS | KY1-1205 |
| (Address of Principal Executive Offices) | (Zip Code) |

(345) 943-4573
(Registrant’s Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

Large accelerated filer o Accelerated filer x

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

| | |
|---|---|
| Class A Ordinary Shares, $0.10 par value | 30,021,393 |
| Class B Ordinary Shares, $0.10 par value | 6,254,949 |
| (Class) | (Outstanding as of July 31, 2009) |

GREENLIGHT CAPITAL RE, LTD.

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PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

June 30, 2009 and December 31, 2008
(expressed in thousands of U.S. dollars, except per share and share amounts)

| | June 30, 2009 (unaudited) | December 31, 2008 |
|---|---|---|
| Assets | | |
| Investments in securities | | |
| Debt instruments, trading, at fair value | $ 134,347 | $ 70,214 |
| Equity securities, trading, at fair value | 401,139 | 409,329 |
| Other investments, at fair value | 60,144 | 14,423 |
| Total investments in securities | 595,630 | 493,966 |
| Cash and cash equivalents | 133,472 | 94,144 |
| Restricted cash and cash equivalents | 387,172 | 248,330 |
| Financial contracts receivable, at fair value | 19,156 | 21,419 |
| Reinsurance balances receivable | 105,727 | 59,573 |
| Loss and loss adjustment expense recoverables | 6,880 | 11,662 |
| Deferred acquisition costs, net | 34,117 | 17,629 |
| Unearned premiums ceded | 9,813 | 7,367 |
| Notes receivable | 16,952 | 1,769 |
| Other assets | 3,797 | 2,146 |
| Total assets | $ 1,312,716 | $ 958,005 |
| Liabilities and shareholders’ equity | | |
| Liabilities | | |
| Securities sold, not yet purchased, at fair value | $ 369,293 | $ 234,301 |
| Financial contracts payable, at fair value | 12,966 | 17,140 |
| Loss and loss adjustment expense reserves | 115,534 | 81,425 |
| Unearned premium reserves | 129,920 | 88,926 |
| Reinsurance balances payable | 45,097 | 34,963 |
| Funds withheld | 2,936 | 3,581 |
| Other liabilities | 9,726 | 6,229 |
| Performance compensation payable to related party | 12,698 | — |
| Total liabilities | 698,170 | 466,565 |
| Shareholders’ equity | | |
| Preferred share capital (par value $0.10; authorized, 50,000,000; none issued) | — | — |
| Ordinary share capital (Class A: par value $0.10; authorized, 100,000,000; issued and outstanding, 30,021,393 (2008: 29,781,736); Class B: par value $0.10; authorized, 25,000,000; issued and outstanding, 6,254,949 (2008: 6,254,949)) | 3,628 | 3,604 |

| | | | | |
|---|---|---|---|---|
| Additional paid-in capital | | 479,311 | | 477,571 |
| Non-controlling interest in joint venture | | 7,395 | | 6,058 |
| Retained earnings | | 124,212 | | 4,207 |
| Total shareholders' equity | | 614,546 | | 491,440 |
| Total liabilities and shareholders' equity | $ | 1,312,716 | $ | 958,005 |

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

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

For the three and six months ended June 30, 2009 and 2008
(expressed in thousands of U.S. dollars, except per share and share amounts)

| | Three months ended June 30, 2009 | Three months ended June 30, 2008 | Six months ended June 30, 2009 | Six months ended June 30, 2008 |
|---|---|---|---|---|
| Revenues | | | | |
| Gross premiums written | $ 70,047 | $ 25,360 | $ 141,918 | $ 96,126 |
| Gross premiums ceded | (6,611) | (5,615) | (7,831) | (14,887) |
| Net premiums written | 63,436 | 19,745 | 134,087 | 81,239 |
| Change in net unearned premium reserves | (14,089) | 4,937 | (38,547) | (29,065) |
| Net premiums earned | 49,347 | 24,682 | 95,540 | 52,174 |
| Net investment income | 88,323 | 31,025 | 116,040 | 25,263 |
| Other income (expense) | (70) | — | 2,054 | — |
| Total revenues | 137,600 | 55,707 | 213,634 | 77,437 |
| Expenses | | | | |
| Loss and loss adjustment expenses incurred, net | 23,547 | 9,337 | 53,743 | 21,461 |
| Acquisition costs, net | 15,578 | 9,228 | 28,823 | 19,157 |
| General and administrative expenses | 5,330 | 3,210 | 9,708 | 7,670 |
| Total expenses | 44,455 | 21,775 | 92,274 | 48,288 |
| Net income before non-controlling interest and corporate income tax expense | 93,145 | 33,932 | 121,360 | 29,149 |
| Non-controlling interest in income of joint venture | (1,006) | (394) | (1,337) | (361) |
| Net income before corporate income tax expense | 92,139 | 33,538 | 120,023 | 28,788 |
| Corporate income tax benefit (expense) | 57 | — | (18) | — |
| Net income | $ 92,196 | $ 33,538 | $ 120,005 | $ 28,788 |
| Earnings per share | | | | |
| Basic | $ 2.54 | $ 0.93 | $ 3.32 | $ 0.80 |
| Diluted | $ 2.51 | $ 0.91 | $ 3.29 | $ 0.78 |
| Weighted average number of ordinary shares used in the determination of | | | | |
| Basic | 36,252,925 | 36,249,979 | 36,160,160 | 36,181,761 |
| Diluted | 36,689,711 | 36,841,029 | 36,503,890 | 36,771,949 |

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

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

For the six months ended June 30, 2009 and 2008
(expressed in thousands of U.S. dollars)

| | Six months ended June 30, 2009 | Six months ended June 30, 2008 |
|---|---|---|
| Ordinary share capital | | |
| Balance – beginning of period | $ 3,604 | $ 3,610 |
| Issue of Class A ordinary share capital, net of forfeitures | 24 | 17 |
| Balance – end of period | $ 3,628 | $ 3,627 |
| Additional paid-in capital | | |
| Balance – beginning of period | $ 477,571 | $ 476,861 |
| Issue of Class A ordinary share capital | 221 | 9 |
| Share-based compensation expense, net of forfeitures | 1,519 | 1,358 |
| Balance – end of period | $ 479,311 | $ 478,228 |
| Non-controlling interest | | |
| Balance – beginning of period | $ 6,058 | $ — |
| Non-controlling interest contribution in joint venture | — | 6,909 |
| Non-controlling interest in income of joint venture | 1,337 | 361 |
| Balance – end of period | $ 7,395 | $ 7,270 |
| Retained earnings | | |
| Balance – beginning of period | $ 4,207 | $ 125,111 |
| Net income | 120,005 | 28,788 |
| Balance – end of period | $ 124,212 | $ 153,899 |
| Total shareholders' equity | $ 614,546 | $ 643,024 |

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

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

For the six months ended June 30, 2009 and 2008
(expressed in thousands of U.S. dollars)

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Cash provided by (used in) | | | | |
| Operating activities | | | | |
| Net income | $ | 120,005 | $ | 28,788 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Net change in unrealized gains and losses on securities and financial contracts | | (112,668) | | 40,177 |
| Net realized gains on securities and financial contracts | | (18,272) | | (86,679) |
| Foreign exchange loss on restricted cash and cash equivalents | | (258) | | 14,437 |
| Non-controlling interest in income of joint venture | | 1,337 | | 361 |
| Share-based compensation expense | | 1,543 | | 1,375 |
| Depreciation expense | | 20 | | 20 |
| Net change in | | | | |
| Reinsurance balances receivable | | (46,154) | | (25,798) |
| Loss and loss adjustment expense recoverables | | 4,782 | | (959) |
| Deferred acquisition costs, net | | (16,488) | | (7,949) |
| Unearned premiums ceded | | (2,446) | | (6,851) |
| Other assets | | (1,671) | | (1,061) |
| Loss and loss adjustment expense reserves | | 34,109 | | 14,990 |
| Unearned premium reserves | | 40,994 | | 35,991 |
| Reinsurance balances payable | | 10,134 | | 14,032 |
| Funds withheld | | (645) | | 1,638 |
| Other liabilities | | 3,497 | | 2,114 |
| Performance compensation payable to related party | | 12,698 | | (740) |
| Net cash provided by operating activities | $ | 30,517 | $ | 23,886 |
| Investing activities | | | | |
| Purchases of securities and financial contracts | | (618,825) | | (575,339) |
| Sales of securities and financial contracts | | 781,182 | | 662,443 |
| Change in restricted cash and cash equivalents, net | | (138,584) | | (84,577) |
| Change in notes receivable, net | | (15,183) | | — |
| Non-controlling interest in joint venture | | — | | 6,909 |
| Net cash provided by investing activities | $ | 8,590 | $ | 9,436 |
| Financing activities | | | | |
| Net proceeds from exercise of stock options | | 221 | | 9 |
| Net cash provided by financing activities | $ | 221 | $ | 9 |
| Net increase in cash and cash equivalents | | 39,328 | | 33,331 |
| Cash and cash equivalents at beginning of the period | | 94,144 | | 64,192 |
| Cash and cash equivalents at end of the period | | 133,472 | $ | 97,523 |

| | | |
|---|---|---|
| Supplementary information | | |
| Interest paid in cash | $ 2,610 | $ 6,909 |
| Interest received in cash | 3,548 | 6,906 |
| Income tax paid in cash | — | — |

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

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GREENLIGHT CAPITAL RE, LTD.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

June 30, 2009 and 2008

## 1. GENERAL

Greenlight Capital Re, Ltd. ("GLRE") was incorporated as an exempted company under the Companies Law of the Cayman Islands on July 13, 2004. GLRE's principal wholly-owned subsidiary, Greenlight Reinsurance, Ltd. (the "Subsidiary"), provides global specialty property and casualty reinsurance. The Subsidiary has an unrestricted Class "B" insurance license under Section 4(2) of the Cayman Islands Insurance Law. The Subsidiary commenced underwriting in April 2006. Effective May 30, 2007, GLRE completed an initial public offering of 11,787,500 Class A ordinary shares at $19.00 per share. Concurrently, 2,631,579 Class B ordinary shares of GLRE were sold at $19.00 per share in a private placement offering. On December 9, 2008, Verdant Holding Company, Ltd. ("Verdant"), a wholly owned subsidiary of GLRE, was incorporated in the state of Delaware principally for the purpose of making strategic investments in a select group of property and casualty insurers and general agents in the U.S.

The Class A ordinary shares of GLRE are listed on Nasdaq Global Select Market under the symbol "GLRE".

As used herein, the "Company" refers collectively to GLRE and its subsidiaries.

These unaudited condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") 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 U.S. GAAP for complete consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2008. In the opinion of management, these unaudited condensed consolidated financial statements reflect all the normal recurring adjustments considered necessary for a fair presentation of the Company's financial position and results of operations as of the dates and for the periods presented.

The results for the six months ended June 30, 2009 are not necessarily indicative of the results expected for the full year.

## 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated financial statements include the accounts of GLRE and the consolidated financial statements of all of its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Management has evaluated subsequent events through August 3, 2009, the issuance date of these financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the period. Actual results could differ from these estimates.

Restricted Cash and Cash Equivalents

The Company is required to maintain cash in segregated accounts with prime brokers and swap counterparties. The amount of restricted cash held by prime brokers is used to support the liability created from securities sold, not yet purchased. Cash held for the benefit of swap counterparties is used to collateralize the current value of any amounts that may be due to the counterparty under the swap contract.

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Loss and Loss Adjustment Expense Reserves and Recoverables

The Company establishes reserves for contracts based on estimates of the ultimate cost of all losses including losses incurred but not reported. These estimated ultimate reserves are based on reports received from ceding companies, and historical experience, as well as the Company's own actuarial estimates. These estimates are reviewed periodically and adjusted when deemed necessary. Since reserves are estimates, the final settlement of losses may vary from the reserves established and any adjustments to the estimates, which may be material, are recorded in the period they are determined.

Loss and loss adjustment expense recoverables include the amounts due from retrocessionaires for paid and unpaid loss and loss adjustment expenses on retrocession agreements. Ceded losses incurred but not reported are estimated based on the Company’s actuarial estimates. These estimates are reviewed periodically and adjusted when deemed necessary. The Company may not be able to ultimately recover the loss and loss adjustment expense recoverable amounts due to the retrocessionaires’ inability to pay. The Company regularly evaluates the financial condition of its retrocessionaires and records provisions for uncollectible reinsurance recoverable when recovery becomes unlikely.

Notes Receivable

Notes receivable include promissory notes receivable from third party entities. These notes are recorded at cost along with accrued interest, if any, which approximates the fair value. The Company regularly reviews all notes receivable for impairment and records provisions for uncollectible notes and interest receivable for non-performing notes. For the six months ended June 30, 2009, the notes earned interest at annual interest rates ranging from 5% to 10% and had maturity terms ranging from 2 years to 10 years. Included in the notes receivable balance were accrued interest of $0.3 million at June 30, 2009 (December 31, 2008: $19,000) and all notes were considered current and performing.

Deposit Assets and Liabilities

The Company accounts for reinsurance contracts in accordance with Statement of Financial Accounting Standards ("SFAS") No. 60, "Accounting and Reporting by Insurance Enterprises," and SFAS No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts." In the event that a reinsurance contract does not transfer sufficient risk, or a contract provides retroactive reinsurance, deposit accounting is used. Any losses on such contracts are charged to earnings immediately and recorded in the condensed consolidated statements of income as other expense. Any gains relating to such contracts are deferred and amortized over the estimated remaining settlement period. All such deferred gains are included in reinsurance balances payable in the condensed consolidated balance sheets. Amortized gains are recorded in the condensed consolidated statements of income as other income. At June 30, 2009, included in the condensed consolidated balance sheets under reinsurance balances receivable and reinsurance balances payable were $2.4 million and $1.9 million of deposit assets and deposit liabilities, respectively. For the three and six months ended June 30, 2009, included in other income (expense) were $0.2 million and $0.2 million, respectively, relating to losses on deposit accounted contracts, and $0.1 million and $0.2 million, respectively, relating to gains on deposit accounted contracts. There were no deposit assets or deposit liabilities at December 31, 2008.

Financial Instruments

Investments in Securities and Securities Sold, Not Yet Purchased

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements," which establishes a framework for measuring fair value by creating a hierarchy of fair value measurements based on inputs used in deriving fair values and enhances disclosure requirements for fair value measurements. The adoption of

SFAS No. 157 had no material impact on the Company’s results of operations or financial condition as there were no material changes in the valuation techniques used by the Company to measure fair value. The Company’s investments in debt and equity securities that are classified as "trading securities" are carried at fair value. The fair values of the listed equity and debt investments are derived based on quoted prices (unadjusted) in active markets for identical assets (Level 1 inputs). The fair values of most private debt instruments are derived based on inputs that are observable, either directly or indirectly, such as market maker or broker quotes reflecting recent transactions (Level 2 inputs), and are generally derived based on the average of multiple market maker or broker quotes which are considered to be binding. Where quotes are not available, debt instruments are valued using cash flow models using assumptions and estimates that may be subjective and non-observable (Level 3 inputs).

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The Company’s "other investments" may include investments in private equity securities, limited partnerships, futures, commodities, exchange traded options and over-the-counter ("OTC") options, which are all carried at fair value. The Company maximizes the use of observable direct or indirect inputs (Level 2 inputs) when deriving the fair values for "other investments." For limited partnerships and private equity securities, where observable inputs are not available, the fair values are derived based on unobservable inputs (Level 3 inputs) such as management’s assumptions developed from available information using the services of the investment advisor. Amounts invested in exchange traded and OTC call and put options are recorded as an asset or liability at inception. Subsequent to initial recognition, unexpired exchange traded option contracts are recorded at fair value based on quoted prices in active markets (Level 1 inputs). For OTC options or exchange traded options where a quoted price in an active market is not available, fair values are derived based upon observable inputs (Level 2 inputs) such as multiple market maker quotes.

For securities classified as "trading securities," and "other investments," any realized and unrealized gains or losses are determined on the basis of specific identification method (by reference to cost and amortized cost, as appropriate) and included in net investment income in the condensed consolidated statements of income.

Dividend income and expense are recorded on the ex-dividend date. The ex-dividend date is the date by which the underlying security must have been traded to be eligible for the dividend declared. Interest income and interest expense are recorded on an accrual basis.

Derivative Financial Instruments

U.S GAAP requires that an entity recognize all derivatives in the balance sheet at fair value. It also requires that unrealized gains and losses resulting from changes in fair value be included in income or comprehensive income, depending on whether the instrument qualifies as a hedge transaction, and if so, the type of hedge transaction. Derivative financial instrument assets are generally included in investments in securities or financial contracts receivable. Derivative financial instrument liabilities are generally included in financial contracts payable. The Company's derivatives do not constitute hedges for financial reporting purposes.

Financial Contracts

The Company enters into financial contracts with counterparties as part of its investment strategy. Derivatives not designated as hedging instruments, include total return swaps, credit default swaps, and other derivative instruments which are recorded at their fair value with any unrealized gains and losses included in net investment income in the condensed consolidated statements of income. On the condensed consolidated balance sheets, financial contracts receivable represents derivative contracts whereby the Company is entitled to receive payments upon settlement of the contract. Financial contracts payable represents derivative contracts whereby the Company is obligated to make payments upon settlement of the contract.

Total return swap agreements, included in the condensed consolidated balance sheets as financial contracts receivable and financial contracts payable, are derivative financial instruments whereby the Company is either entitled to receive or obligated to pay the product of a notional amount multiplied by the movement in an underlying security, which the Company does not own, over a specified time frame. In addition, the Company may also be obligated to pay or receive other payments based on either interest rate, dividend payments and receipts, or foreign exchange movements during a specified period. The Company measures its rights or obligations to the counterparty based on the fair value movements of the underlying security together with any other payments due. These contracts are carried at fair value, based on observable inputs (Level 2 inputs) with the resultant unrealized gains and losses reflected in net investment income in the condensed consolidated statements of income. Additionally, any amounts received or paid on swap contracts are reported as a gain or loss in net investment income in the condensed consolidated statements of income.

Financial contracts may also include exchange traded futures or options contracts that are based on the movement of a particular index or interest rate, and are entered into for non-hedging purposes. Where such contracts are traded in an active market, the Company’s obligations or rights on these contracts are recorded at fair value measured based on the observable quoted prices of the same or similar financial contract in an active market (Level 1) or on broker quotes which reflect market information based on actual transactions (Level 2).

The Company purchases and sells credit default swaps ("CDS") for the purposes of either managing its exposure to certain investments, or for other strategic investment purposes. A CDS is a derivative instrument that provides protection against an investment loss due to specified credit or default events of a reference entity. The seller of a CDS guarantees to the buyer a specified amount if the reference entity defaults on its obligations or fails to perform. The buyer of a CDS pays a premium over time to the seller in exchange for obtaining this protection. The Company does not designate a CDS as a hedging instrument. CDS trading in an active market are valued at fair value based on broker or market maker quotes for identical instruments in an active market (Level 2) or based on the current credit spreads on identical contracts (Level 2) with any unrealized gains and losses reflected in net investment income in the condensed consolidated statements of income.

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Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings per share include the dilutive effect of additional potential common shares issuable when stock options are exercised and are determined using the treasury stock method. As discussed below under the caption, "Recently Issued Accounting Standards," the Financial Accounting Standards Board ("FASB") Staff Position ("FSP") EITF 03-6-1 was adopted effective January 1, 2009. FSP EITF 03-6-1 requires that unvested stock awards which contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (referred to as "participating securities"), be included in the number of shares outstanding for both basic and diluted earnings per share calculations. The Company's unvested restricted stock is considered a participating security. All prior period earnings per share data presented are required to be adjusted retrospectively to conform to the provisions of FSP EITF 03-6-1. In the event of a net loss, the participating securities are excluded from the calculation of both basic and diluted earnings per share.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Weighted average shares outstanding | 36,252,925 | 36,249,979 | 36,160,160 | 36,181,761 |
| Effect of dilutive service provider share-based awards | 135,474 | 172,087 | 116,400 | 173,347 |
| Effect of dilutive employee and director share-based awards | 301,312 | 418,963 | 227,330 | 416,841 |
| | 36,689,711 | 36,841,029 | 36,503,890 | 36,771,949 |
| Anti-dilutive stock options outstanding | 130,000 | 50,000 | 146,001 | 50,000 |

Taxation

Under current Cayman Islands law, no corporate entity, including the Company, is obligated to pay taxes in the Cayman Islands on either income or capital gains. The Company has an undertaking from the Governor-in-Cabinet of the Cayman Islands, pursuant to the provisions of the Tax Concessions Law, as amended, that, in the event that the Cayman Islands enacts any legislation that imposes tax on profits, income, gains or appreciations, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to the Company or its operations, or to the Class A or Class B ordinary shares or related obligations, until February 1, 2025.

Verdant is incorporated in Delaware, and therefore is subject to taxes in accordance with the U.S. federal rates and regulations prescribed by the Internal Revenue Service. Verdant’s taxable income is taxed at an effective rate of 35%. Any deferred tax asset is evaluated for recovery and a valuation allowance is recorded when it is more likely than not that the deferred tax asset will not be realized in the future.

Recently Issued Accounting Standards

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – A Replacement of FASB Statement No. 162." SFAS No. 168 establishes the FASB Accounting Standards Codification ("Codification") as the source of authoritative accounting principles recognized by the FASB and supersedes existing FASB, AICPA, EITF and related literature. The Codification does not change GAAP, but instead takes the hundreds of standards established by a variety of standard setters and reorganizes them into roughly 90 accounting topics using a consistent structure and a new method for citing particular content using unique numeric identifiers. The Codification is effective for financial statements for interim and annual reporting periods ending after September 15, 2009. The implementation of SFAS No. 168 will have no impact on the Company’s results of operations or financial position, but will impact all references to FASB literature cited in the Company’s notes of the condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46R," which changes the way a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar) rights, should by consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity’s purpose and design and the reporting entity’s ability to direct the activities of the other entity that most significantly impact the other entity’s economic performance. SFAS No. 167 will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. SFAS No. 167 is effective for periods beginning after November 15, 2009. Management is evaluating the impact of SFAS No. 167 but does not anticipate its adoption will have a material impact on the Company’s results of operations or financial position.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets." SFAS No. 166 revises SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. SFAS No. 166 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 166 is effective for periods beginning after November 15, 2009. Management is evaluating the impact of SFAS No. 166 but does not anticipate its adoption will have a material impact on the Company’s results of operations or financial position.

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In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The adoption of SFAS No. 165 did not have a material impact on the Company's results of operations or financial position.

In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." FSP FAS 157-4 provides further clarification of the principles established by SFAS No. 157 for determining the fair values of assets and liabilities in inactive markets and those transacted in distressed situations. FSP 157-4 is effective for periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. Retrospective application is not permitted. The adoption of FSP 157-4 did not have a material impact on the Company's results of operations or financial position.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments." This FSP, which is limited to debt securities, provides guidance that aims to make other-than-temporary impairments ("OTTI") of debt securities more operational and improve the presentation of OTTIs in the financial statements. FSP FAS 115-2 and FAS 124-2 is effective for periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 during the quarter ended June 30, 2009, did not have any impact on the Company's results of operations or financial position since its debt instruments are classified as trading and are currently carried at fair value.

In April 2009, the FASB issued FSP 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." FSP 107-1 and APB 28-1 amends FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments," to require an entity to provide disclosures about fair value of financial instruments in interim financial information. FSP 107-1 and APB 28-1 is effective for periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The adoption of FSP 107-1 and APB 28-1 during the quarter ended June 30, 2009 did not have a material impact on the Company's disclosures since its financial instruments are currently carried at fair value.

In June 2008, the FASB issued FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." FSP No. EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share ("EPS"). FSP No. EITF 03-6-1 is effective for periods beginning after December 15, 2008, and interim periods within those years. The implementation of this FSP did not have a material impact to the Company's EPS calculations given that the Company has declared no dividends since its inception and the number of unvested restricted shares is insignificant compared to the total number of outstanding shares. The Company does not anticipate the EPS calculations to be materially affected in the foreseeable future as a result of adopting FSP No. EITF 03-6-1.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how an entity accounts for the derivatives and hedged items, and how derivatives and hedged items affect an entity's financial position, performance and cash flows. The implementation of SFAS No. 161 did not have a material impact on the Company's derivative disclosures.

In February 2008, the FASB issued FSP FAS 157-2, "Effective Date of FASB Statement No. 157." FSP FAS 157-2 deferred the effective date of SFAS No. 157 until January 1, 2009 for non-financial assets and non-financial liabilities except those items recognized or disclosed at fair value on an annual or more frequently recurring basis. The implementation of the deferred guidance in SFAS No. 157 did not have a material impact on the Company’s results of operation or financial position.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. SFAS No. 160 establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary.  Upon adoption of SFAS No. 160, the Company's non-controlling interest in joint venture (previously referred to as minority interest in joint venture) was reclassified from liabilities to shareholders’ equity for all years presented. This reclassification resulted in an increase in shareholders’ equity and a decrease in total liabilities. However, the implementation of SFAS No. 160 did not have any impact on the Company's results of operations or retained earnings.

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Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation. The reclassifications resulted in no changes to net income or retained earnings for any of the periods presented.

## 3. FINANCIAL INSTRUMENTS

Fair Value Hierarchy

All of the Company's financial instruments are carried at fair value, and the net unrealized gains or losses are included in net investment income in the condensed consolidated statements of income.

The following table presents the Company's investments, categorized by the level of the fair value hierarchy as of June 30, 2009:

| | Fair value measurements as of June 30, 2009 | | | |
|---|---|---|---|---|
| Description | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| | ($ in thousands) | | | |
| Debt instruments | $ — | $ 127,541 | $ 6,806 | $ 134,347 |
| Listed equity securities | 401,139 | — | — | 401,139 |
| Commodities | 44,409 | — | — | 44,409 |
| Private equity securities | — | 1,606 | 9,530 | 11,136 |
| Put options | 2,508 | — | — | 2,508 |
| Call options | — | 2,091 | — | 2,091 |
| Financial contracts receivable (payable), net | — | 6,190 | — | 6,190 |
| | $ 448,056 | $ 137,428 | $ 16,336 | $ 601,820 |
| | | | | |
| Listed equity securities, sold not yet purchased | $ (369,293) | $ — | $ — | $ (369,293) |

The following table presents the Company's investments, categorized by the level of the fair value hierarchy as at December 31, 2008:

| | Fair value measurements as of December 31, 2008 | | | |
|---|---|---|---|---|
| Description | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| | ($ in thousands) | | | |
| Debt instruments | $ — | $ 66,099 | $ 4,115 | $ 70,214 |
| Listed equity securities | 409,329 | — | — | 409,329 |
| Private equity securities | — | 121 | 11,776 | 11,897 |
| Call options | 2,526 | — | — | 2,526 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Financial contracts receivable (payable), net | | — | | 4,279 | | — | | 4,279 |
| | $ | 411,855 | $ | 70,499 | $ | 15,891 | $ | 498,245 |
| | | | | | | | | |
| Listed equity securities, sold not yet purchased | $ | (234,301) | $ | — | $ | — | $ | (234,301) |

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The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2009:

| | Fair value measurements using significant unobservable inputs (Level 3) Three months ended June 30, 2009 | | | Fair value measurements using significant unobservable inputs (Level 3) Six months ended June 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Debt instruments | Private equity securities ($ in thousands) | Total | Debt instruments | Private equity securities ($ in thousands) | Total |
| Beginning balance | $ 9,352 | $ 9,807 | $ 19,159 | $ 4,115 | $ 11,776 | $ 15,891 |
| Purchases, sales, issuances, and settlements, net | 20 | 200 | 220 | 1,751 | 118 | 1,869 |
| Total gains (losses) realized and unrealized included in earnings, net | 638 | (477) | 161 | (847 ) | (2,364 ) | (3,211 ) |
| Transfers into (out of) Level 3 | (3,204) | — | (3,204) | 1,787 | — | 1,787 |
| Ending balance, June 30, 2009 | $ 6,806 | $ 9,530 | $ 16,336 | $ 6,806 | $ 9,530 | $ 16,336 |

The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2008:

| | Fair value measurements using significant unobservable inputs (Level 3) Three months ended June 30, 2008 | | | Fair value measurements using significant unobservable inputs (Level 3) Six months ended June 30, 2008 | | |
|---|---|---|---|---|---|---|
| | Debt instruments | Private equity securities ($ in thousands) | Total | Debt instruments | Private equity securities ($ in thousands) | Total |
| Beginning balance | $ 865 | $ 10,943 | $ 11,808 | $ 865 | $ 8,115 | $ 8,980 |
| Purchases, sales, issuances, and settlements, net | 2,204 | 804 | 3,008 | 2,204 | 3,565 | 5,769 |
| Total gains (losses) realized and unrealized included in earnings, net | (2) | (279) | (281) | (2) | (212) | (214) |
| Transfers into (out of) Level 3 | — | (5,205) | (5,205) | — | (5,205) | (5,205) |
| Ending balance, June 30, 2008 | $ 3,067 | $ 6,263 | $ 9,330 | $ 3,067 | $ 6,263 | $ 9,330 |

For the three and six months ended June 30, 2009, transfers into Level 3 represent the fair value on the date of transfer of debt instruments for which multiple broker quotes were not available. The fair values of these debt instruments were estimated using the last available transaction price, adjusted for credit risk, expected cash flows, and other non-observable inputs. Transfers out of Level 3 represent the fair values on the dates of transfer of debt instruments for which multiple broker quotes became available. For the three and six months ended June 30, 2008, the transfers out of Level 3 represent the fair value of private equity securities of an entity that were transferred to Level 1 when the entity's shares were publicly listed during the second quarter of fiscal 2008, resulting in fair value being based on the quoted price in an active market.

For the three and six months ended June 30, 2009, realized gains of $0.3 million (2008: $0.0) and $0.3 million (2008: $ 0.0) respectively, and change in unrealized gains of $(0.1) million (2008: $0.3 million) and $(3.5) million (2008: $0.2 million) respectively, on securities still held at the reporting date and valued using unobservable inputs are included as net investment income in the condensed consolidated statements of income.

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Debt instruments, trading

At June 30, 2009, the following investments are included in debt instruments:

| 2009 | Cost/amortized cost | Unrealized gains | Unrealized losses | Fair value |
|---|---|---|---|---|
| | | ($ in thousands) | | |
| Corporate debt – U.S. | $ 84,700 | $ 41,676 | $ (5,847) | $ 120,529 |
| Corporate debt – Non U.S. | 9,593 | 4,225 | — | 13,818 |
| Total debt instruments | $ 94,293 | $ 45,901 | $ (5,847) | $ 134,347 |

At December 31, 2008, the following investments are included in debt instruments:

| 2008 | Cost/amortized cost | Unrealized gains | Unrealized losses | Fair value |
|---|---|---|---|---|
| | | ($ in thousands) | | |
| Corporate debt – U.S. | $ 74,833 | $ 1,204 | $ (8,750) | $ 67,287 |
| Corporate debt – Non U.S. | 2,978 | 109 | (160) | 2,927 |
| Total debt instruments | $ 77,811 | $ 1,313 | $ (8,910) | $ 70,214 |

The maturity distribution for debt instruments held at June 30, 2009 is as follows:

| | Cost/amortized cost | Fair value |
|---|---|---|
| | ($ in thousands) | |
| Within one year | $ 14,436 | $ 16,604 |
| From one to five years | 50,864 | 86,866 |
| From five to ten years | 22,325 | 23,842 |
| More than ten years | 6,668 | 7,035 |
| | $ 94,293 | $ 134,347 |

Investment in Equity Securities, Trading

At June 30, 2009, the following long positions are included in investment securities, trading:

| 2009 | Cost | Unrealized gains | Unrealized losses | Fair value |
|---|---|---|---|---|
| | | ($ in thousands) | | |
| Equities – listed | $ 461,591 | $ 41,309 | $ (116,705) | $ 386,195 |
| Exchange traded funds | 7,917 | 7,029 | (2) | 14,944 |
| | $ 469,508 | $ 48,338 | $ (116,707) | $ 401,139 |

At December 31, 2008, the following long positions are included in investment securities, trading:

| 2008 | Cost | Unrealized gains | Unrealized losses | Fair value |
|---|---|---|---|---|
| | | ($ in thousands) | | |
| Equities – listed | $ 552,941 | $ 14,822 | $ (219,173) | $ 348,590 |
| Exchange traded funds | 53,364 | 8,092 | (717) | 60,739 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | $ | 606,305 | $ | 22,914 | $ | (219,890) | $ | 409,329 |

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Other Investments

"Other investments" include options, commodities, and private equity securities. For private equity securities, quoted prices in active markets are not readily available. Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the option counterparty, a specified underlying security at a specified price on or before a specified date. The Company enters into option contracts to meet certain investment objectives. For exchange traded option contracts, the exchange acts as the counterparty to specific transactions and therefore bears the risk of delivery to and from counterparties of specific positions. The Company may invest in commodities for non-hedging purposes through futures or options contracts or may purchase the physical commodity to be held at a professional custodian facility.

At June 30, 2009, the following securities are included in other investments:

| 2009 | Cost | Unrealized gains | Unrealized losses | Fair value |
|---|---|---|---|---|
| | | ($ in thousands) | | |
| Private equity securities | $ 16,456 | $ 346 | $ (5,666) | $ 11,136 |
| Commodities | 44,838 | — | (429) | 44,409 |
| Put options | 2,162 | 616 | (270) | 2,508 |
| Call options | 4,128 | — | (2,037) | 2,091 |
| | $ 67,584 | $ 962 | $ (8,402) | $ 60,144 |

At December 31, 2008, the following securities are included in other investments:

| 2008 | Cost | Unrealized Gains | Unrealized losses | Fair value |
|---|---|---|---|---|
| | | ($ in thousands) | | |
| Private equity securities | $ 15,395 | $ 1,236 | $ (4,734) | $ 11,897 |
| Call options | 2,133 | 393 | — | 2,526 |
| | $ 17,528 | $ 1,629 | $ (4,734) | $ 14,423 |

Investments in Securities Sold, Not Yet Purchased

At June 30, 2009, the following securities are included in investments in securities sold, not yet purchased:

| 2009 | Proceeds | Unrealized gains | Unrealized losses | Fair value |
|---|---|---|---|---|
| | | ($ in thousands) | | |
| Equities – listed | $ 418,817 | $ (80,474) | $ 28,495 | $ 366,838 |
| Warrants and rights on listed equities | — | — | 825 | 825 |
| Exchange traded funds | 1,840 | (221) | 11 | 1,630 |
| | $ 420,657 | $ (80,695) | $ 29,331 | $ 369,293 |

At December 31, 2008, the following securities are included in investments in securities sold, not yet purchased:

| 2008 | Proceeds | Unrealized gains | Unrealized losses | Fair value |
|---|---|---|---|---|
| | | ($ in thousands) | | |
| Equities – listed | $ 343,079 | $ (115,619) | $ 6,841 | $ 234,301 |

Financial Contracts

As of June 30, 2009 and December 31, 2008, the Company had entered into total return swaps, CDS, and interest rate options contracts with various financial institutions to meet certain investment objectives. Under the terms of each of these financial contracts, the Company is either entitled to receive or is obligated to make payments which are based on the product of a formula contained within the contract that includes the change in the fair value of the underlying or reference instrument.

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The fair value of financial contracts outstanding at June 30, 2009 is as follows:

| Financial contracts | Listing currency | Fair value of underlying instruments | Fair value of net assets/ (obligations) on financial contracts |
|---|---|---|---|
| | | ($ in thousands) | |
| Financial contracts receivable | | | |
| Interest rate options | USD | $ 1,002,161 | $ 11,628 |
| Credit default swaps, purchased – Sovereign debt | USD | 302,699 | 3,725 |
| Credit default swaps, purchased – Corporate debt | USD | 44,597 | 2,679 |
| Total return swaps – Equities | USD | 17,248 | 1,124 |
| Total financial contracts receivable, at fair value | | | $ 19,156 |
| Financial contracts payable | | | |
| Credit default swaps, purchased – Sovereign debt | USD | $ 73,149 | $ (567) |
| Credit default swaps, purchased – Corporate debt | USD | 78,150 | (2,656) |
| Credit default swaps, issued – Corporate debt | USD | 13,214 | (9,180) |
| Total return swaps – Equities | USD | 2,668 | (563) |
| Total financial contracts payable, at fair value | | | $ (12,966) |

The fair value of financial contracts receivable and payable at December 31, 2008 was as follows:

| Financial contracts | Listing currency | Fair value of underlying instruments | Fair value of net assets/ (obligations) on financial contracts |
|---|---|---|---|
| | | ($ in thousands) | |
| Financial contracts receivable | | | |
| Interest rate options | USD | $ 85,935 | $ 2,564 |
| Credit default swaps, purchased – Sovereign debt | USD | 322,516 | 12,881 |
| Credit default swaps, purchased – Corporate debt | USD | 54,509 | 5,956 |
| Total return swaps – Equities | USD | 3,249 | 18 |
| Total financial contracts receivable, at fair value | | | $ 21,419 |
| Financial contracts payable | | | |
| Credit default swaps, issued – Corporate debt | USD | $ 11,089 | $ (7,024) |
| Total return swaps – Equities | USD | 26,844 | (10,116) |
| Total financial contracts payable, at fair value | | | $ (17,140) |

As of June 30, 2009, included in interest rate options are contracts on U.S. and Japanese interest rates. As of June 30, 2009, included in financial contracts payable, was a CDS issued by the Company relating to the debt issued by another entity ("reference entity"). The CDS has a remaining term of four years and a notional amount of $13.9 million. Under this contract, the Company receives a premium for guaranteeing the debt and in return will be obligated to pay the notional amount to the counterparty if the reference entity defaults under its debt obligations. As of June 30, 2009, the reference entity had a financial strength rating of (B3) and a surplus notes rating of (Caa3) from Moody’s Investors

Service, Inc. Based on the ratings of the reference entity, there appears to be a high risk of default as of June 30, 2009. The fair value of the CDS at June 30, 2009 was $9.2 million which was determined based on broker quotes obtained for identical or similar contracts traded in an active market (Level 2 inputs).

During the three and six months ended June 30, 2009 and 2008, the Company reported gains and losses on derivatives as follows:

| Derivatives not designated as hedging instruments | Location of gains and losses on derivatives recognized in income | Gain (loss) on derivatives recognized in income for the three months ended June 30, 2009 | 2008 | Gain (loss) on derivatives recognized in income for the six months ended June 30, 2009 | 2008 |
|---|---|---|---|---|---|
| | | ($ in thousands) | | ($ in thousands) | |
| Interest rate options | Net investment income | $ 4,838 | $ — | $ 5,808 | $ — |
| Credit default swaps, purchased – Corporate debt | Net investment income | (10,154) | (30) | (6,237) | 145 |
| Credit default swaps, purchased – Sovereign debt | Net investment income | (7,559) | 687 | (9,596) | 687 |
| Total return swaps – Equities | Net investment income | 12,488 | 770 | 1,902 | 5,459 |
| Credit default swaps, issued – Corporate debt | Net investment income | 176 | — | (1,810) | — |
| Total return swaps – Commodities | Net investment income | — | — | — | (7,292) |
| Options, warrants, and rights | Net investment income | (4,525) | 2,019 | (6,913) | (479) |
| Total | | $ (4,736) | $ 3,446 | $ (16,846) | $ (1,480) |

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The Company generally does not enter into derivatives for risk management or hedging purposes, and the volume of derivative activities varies from period to period depending on potential investment opportunities. For the three and six months ended June 30, 2009, the Company's volume of derivative activities (based on notional amounts) was as follows:

| | Three months ended June 30, 2009 | | Six months ended June 30, 2009 | |
|---|---|---|---|---|
| Derivatives not designated as hedging instruments | Entered | Exited | Entered | Exited |
| | ($ in thousands) | | ($ in thousands) | |
| Credit default swaps | $ 131,078 | $ — | $ 164,421 | $ 20,850 |
| Total return swaps | — | 9,635 | — | 12,144 |
| Interest rate options | 875,400 | — | 903,170 | — |
| Options – equity | 120,205 | 14,426 | 127,800 | 22,028 |
| Rights – equity | 3,743 | 1,599 | 7,870 | 4,211 |
| Total | $ 1,130,426 | $ 25,660 | $ 1,203,261 | $ 59,233 |

## 4. RETROCESSION

The Company utilizes retrocession agreements to reduce the risk of loss on business assumed. The Company currently has coverages that provide for recovery of a portion of loss and loss expenses incurred on certain contracts. Loss and loss adjustment expense recoverables from retrocessionaires are recorded as assets. For the six months ended June 30, 2009 and 2008, loss and loss adjustment expenses incurred are net of loss and loss expenses recovered and recoverable of $(2.5) million and $5.4 million, respectively. Retrocession contracts do not relieve the Company from its obligations to policyholders. Failure of retrocessionaires to honor their obligations could result in losses to the Company. The Company regularly evaluates the financial condition of its retrocessionaires. At June 30, 2009, the Company had loss recoverables of $0.5 million (December 31, 2008: $0.2 million) with a retrocessionaire rated "A+ (superior)" by A.M. Best Company. Additionally, at June 30, 2009, the Company had loss recoverables of $6.4 million (December 31, 2008: $11.5 million) with unrated retrocessionaires. At June 30, 2009, the Company retained funds and other collateral, including parental guarantees, from the unrated retrocessionaires, and the Company had recorded no provision for uncollectible losses recoverable.

## 5. SHARE CAPITAL

The Class A ordinary shares of the Company are listed on Nasdaq Global Select Market under the symbol "GLRE". On July 10, 2009, the Securities and Exchange Commission ("SEC") declared effective the Company's Form S-3 registration statement for an aggregate principal amount of $200.0 million in securities.

During the six months ended June 30, 2009, 198,956 (2008: 141,465) restricted Class A ordinary shares were issued to employees pursuant to the Company's stock incentive plan. These shares contain certain restrictions relating to, among other things, vesting, forfeiture in the event of termination of employment and transferability. Each of these restricted shares will cliff vest after three years from date of issue, subject to the grantee's continued service with the Company.

During the six months ended June 30, 2009, the Company also issued to certain directors 35,875 (2008: 20,724) restricted Class A ordinary shares as part of the directors' remuneration. Each of these restricted shares issued to the directors contains similar restrictions to those issued to employees and these shares will vest on the earlier of the first anniversary of the share issuance or the Company's next annual general meeting, subject to the grantee's continued service with the Company.

The restricted share award activities during the six months ended June 30, 2009 were as follows:

| | Number of non-vested restricted shares | Weighted average grant date fair value |
|---|---|---|
| Balance at December 31, 2008 | 270,349 | $ 17.80 |
| Granted | 234,831 | 15.25 |
| Vested | (20,724) | 18.65 |
| Forfeited | (12,674) | 18.09 |
| Balance at June 30, 2009 | 471,782 | $ 16.49 |

During the six months ended June 30, 2009, 17,500 (2008: 660) stock options were exercised which had a weighted average exercise price of $12.72 (2008: $13.85) per share. The Company issued new Class A ordinary shares from the shares authorized for issuance under the Company’s stock incentive plan. The intrinsic value of options exercised during the six months ended June 30, 2009 was $39,900 (2008: $6,067). At June 30, 2009, 216,897 Class A ordinary shares were available for future issuance under the Company’s stock incentive plan.

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Employee and director stock option activities during the six months ended June 30, 2009 were as follows:

| | Number of options | Weighted average exercise price | Weighted average grant date fair value |
|---|---|---|---|
| Balance at December 31, 2008 | 1,258,340 | $ 13.27 | $ 6.35 |
| Granted | — | | |
| Exercised | (17,500) | 12.72 | 6.75 |
| Forfeited | — | — | — |
| Expired | — | — | — |
| Balance at June 30, 2009 | 1,240,840 | $ 13.28 | $ 6.75 |

The following table is a summary of voting ordinary shares issued and outstanding:

| | Six months ended June 30, 2009 | | Six months ended June 30, 2008 | |
|---|---|---|---|---|
| | Class A | Class B | Class A | Class B |
| Balance – beginning of period | 29,781,736 | 6,254,949 | 29,847,787 | 6,254,949 |
| Issue of ordinary shares, net of forfeitures | 239,657 | — | 162,849 | — |
| Balance – end of period | 30,021,393 | 6,254,949 | 30,010,636 | 6,254,949 |

## 6. RELATED PARTY TRANSACTIONS

Investment Advisory Agreement

The Company was party to an Investment Advisory Agreement (the "Investment Agreement") with DME Advisors, LP ("DME Advisors") until December 31, 2007. DME Advisors is a related party and an affiliate of David Einhorn, Chairman of the Company's Board of Directors. Effective January 1, 2008, the Company terminated the Investment Agreement and entered into an agreement (the "Advisory Agreement") under which the Company and DME Advisors agreed to create a joint venture for the purposes of managing certain jointly held assets. Pursuant to this agreement, the monthly management fees or performance compensation remained the same as those contained in the Investment Agreement.

Pursuant to the Advisory Agreement, performance compensation equal to 20% of the net income of the Company's share of the account managed by DME Advisors is payable to DME Advisors, subject to a loss carry forward provision. The loss carry forward provision allows DME Advisors to earn reduced incentive compensation of 10% on net investment income in any year subsequent to the year in which the investment account incurs a loss, until all the losses are recouped and an additional amount equal to 150% of the aggregate investment loss is earned. DME Advisors is not entitled to earn performance compensation in a year in which the investment portfolio incurs a loss. For the year ended December 31, 2008, the portfolio reported a net investment loss of $126.1 million and as a result no performance compensation was paid to DME Advisors. In addition, the performance compensation for fiscal 2009 and subsequent years will be reduced to 10% of net investment income until all the investment losses have been recouped and an additional amount equal to 150% of the aggregate loss is earned. For the six months ended June 30, 2009, performance compensation of $12.7 million was recorded at the reduced rate of 10%, and remained payable as of June 30, 2009.

Additionally, pursuant to the Advisory Agreement, DME Advisors is entitled to receive a monthly management fee equal to 0.125% (1.5% on an annual basis) of the Company's share of the account managed by DME Advisors. Included in net investment income for the three months ended June 30, 2009 are management fees of $2.5 million (June 30, 2008: $2.7 million). Included in net investment income for the six months ended June 30, 2009 are management fees of $4.8 million (June 30, 2008: $5.1 million). The management fees were fully paid as of June 30, 2009 and December 31, 2008.

Service Agreement

In February 2007, the Company entered into a service agreement with DME Advisors, pursuant to which DME Advisors will provide investor relations services to the Company for a monthly compensation of $5,000 plus expenses. The agreement has an initial term of one year, and will continue for subsequent one year periods until terminated by the Company or DME Advisors. Either party may terminate the agreement for any reason with 30 days prior written notice to the other party.

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## 7. COMMITMENTS AND CONTINGENCIES

Operating Lease

Effective September 1, 2005, the Company entered into a five-year non-cancelable lease agreement to rent office space.

On July 9, 2008, the Company entered into an additional lease agreement for new office space in the Cayman Islands. Under the terms of the lease agreement, the Company is committed to annual rent payments ranging from $253,539 to $311,821. The lease expires on June 30, 2018 and the Company has the option to renew the lease for a further five year term. Included in the schedule below are the minimum lease payment obligations relating to these leases.

The total rent expense relating to leased office spaces for the six months ended June 30, 2009 was $299,471 (2008: $46,589).

Specialist Service Agreement

Effective September 1, 2007, the Company entered into a service agreement with a specialist whereby the specialist service provider provides administration and support in developing and maintaining business relationships, reviewing and recommending programs and managing risks relating to certain specialty lines of business. The service provider does not have any authority to bind the Company to any reinsurance contracts. Under the terms of the agreement, the Company has committed to quarterly payments to the service provider. If the agreement is terminated after two years, the Company is obligated to make minimum payments for another two years, as presented in the schedule below, to ensure contracts to which the Company is bound are adequately administered by the specialist service provider. Included in the schedule below are the minimum payment obligations relating to this agreement.

Private Equity

From time to time the Company makes investments in private equity vehicles. As part of the Company's participation in such private equity investments, the Company may make funding commitments. As of June 30, 2009, the Company had commitments to invest an additional $18.9 million in private equity investments.

The following is a schedule of remaining future minimum payments required under the above commitments for the next five years:

| | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| | | | | ($ in thousands) | | | |
| Operating lease obligations | $ 189 | $ 345 | $ 276 | $ 276 | $ 276 | $ 1,243 | $ 2,605 |
| Specialist service agreement | 250 | 400 | 150 | — | — | — | 800 |
| Private equity and limited partnerships | (1) 18,499 | 450 | — | — | — | — | 18,949 |
| | $ 18,938 | $ 1,195 | $ 426 | $ 276 | $ 276 | $ 1,243 | $ 22,354 |

(1) Given the nature of these investments, the Company is unable to determine with any degree of accuracy when these commitments will be called. Therefore, for purposes of the above table, the Company has assumed that all commitments with no fixed payment schedules will be called during 2009.

Letters of Credit

At June 30, 2009, the Company had a $400.0 million letter of credit facility with Citibank N.A. This facility terminates on October 11, 2010, although the termination date is automatically extended for an additional year unless written notice of cancellation is delivered to the other party at least 120 days prior to the termination date. In addition, at June 30, 2009, the Company had a $25.0 million letter of credit facility with Butterfield Bank (Cayman) Limited ("Butterfield Bank"). This facility terminates on June 6, 2010, although the termination date is automatically extended for an additional year unless written notice of cancellation is delivered to the other party at least 30 days prior to the termination date. On July 21, 2009, the Company entered into a $50.0 million letter of credit facility with Bank of America, N.A. This facility terminates on July 20, 2010, although the termination date is automatically extended for an additional year unless notice is delivered to the other party at least 90 days prior to the termination date.

At June 30, 2009, an aggregate amount of $223.1 million (December 31, 2008: $167.3 million) in letters of credit was issued under the above facilities. Under these facilities, the Company provides collateral that may consist of equity securities and cash equivalents. At June 30, 2009, total equity securities and cash equivalents with a fair value of $230.3 million (December 31, 2008: $220.2 million) were pledged as security against the letters of credit issued. Each of the facilities requires that the Company comply with certain covenants, including restrictions on the Company’s ability to place a lien or charge on the pledged assets, and restricts issuance of any debt without the consent of the letter of credit provider. Additionally, if an event of default exists, as defined in the letter of credit facilities, Greenlight Re will be prohibited from paying dividends to its parent company. The Company was in compliance with all the covenants of each of these facilities as of June 30, 2009 and December 31, 2008.

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Litigation

In the normal course of business, the Company may become involved in various claims litigation and legal proceedings. As of June 30, 2009, the Company was not a party to any litigation or arbitration proceedings.

## 8. SEGMENT REPORTING

The Company manages its business on the basis of one operating segment, Property & Casualty Reinsurance.

The following tables provide a breakdown of the Company's gross premiums written by line of business and by geographic area of risks insured for the periods indicated:

Gross Premiums Written by Line of Business

| | Three months ended June 30, 2009 ($ in thousands) | | Three months ended June 30, 2008 ($ in thousands) | | Six months ended June 30, 2009 ($ in thousands) | | Six months ended June 30, 2008 ($ in thousands) | |
|---|---|---|---|---|---|---|---|---|
| Property | | | | | | | | |
| Commercial lines | $ 3,000 | 4.3% | $ 1,600 | 6.3% | $ 22,413 | 15.8% | $ 6,091 | 6.3% |
| Personal lines | 17,671 | 25.2 | (4,236) | (16.7) | 17,682 | 12.5 | (4,100) | (4.3) |
| Casualty | | | | | | | | |
| General liability | 13,448 | 19.2 | 8,697 | 34.3 | 16,080 | 11.3 | 10,335 | 10.7 |
| Motor liability | 20,293 | 29.0 | 12,022 | 47.4 | 36,980 | 26.1 | 36,867 | 38.4 |
| Professional liability | — | — | 2,150 | 8.5 | — | — | 2,150 | 2.3 |
| Specialty | | | | | | | | |
| Health | 8,682 | 12.4 | 2,611 | 10.3 | 26,061 | 18.4 | 28,574 | 29.7 |
| Medical malpractice | 265 | 0.4 | (918) | (3.6) | 4,886 | 3.4 | 6,871 | 7.2 |
| Workers' compensation | 6,688 | 9.5 | 3,434 | 13.5 | 17,816 | 12.5 | 9,338 | 9.7 |
| | $70,047 | 100.0 % | $25,360 | 100.0% | $ 141,918 | 100.0% | $ 96,126 | 100.0% |

Gross Premiums Written by Geographic Area of Risks Insured

| | Three months ended June 30, 2009 ($ in thousands) | | Three months ended June 30, 2008 ($ in thousands) | | Six months ended June 30, 2008 ($ in thousands) | | Six months ended June 30, 2008 ($ in thousands) | |
|---|---|---|---|---|---|---|---|---|
| USA | $68,547 | 97.9 % | $21,601 | 85.2 % | $119,814 | 84.4 % | $86,238 | 89.7% |
| Worldwide(1) | — | — | 2,959 | 11.7 | 20,358 | 14.4 | 9,088 | 9.5 |
| Caribbean | 1,500 | 2.1 | 800 | 3.1 | 1,746 | 1.2 | 800 | 0.8 |
| | $70,047 | 100.0 % | $25,360 | 100.0 % | $141,918 | 100.0 % | $96,126 | 100.0% |

(1) "Worldwide" risk is comprised of individual policies that insure risks on a worldwide basis.

## 9. SUBSEQUENT EVENTS

On July 10, 2009, the SEC declared effective the Company's shelf registration statement for an aggregate principal amount of $200.0 million in securities.

On July 21, 2009, the Company entered into a $50.0 million letter of credit facility with Bank of America, N.A. This facility terminates on July 20, 2010, although the termination date is automatically extended for an additional year unless notice is delivered to the other party at least 90 days prior to the termination date.

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## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References to "we," "us," "our," "our company," "Greenlight Re," or "the Company" refer to Greenlight Capital Re, Ltd. and its wholly-owned subsidiaries, Greenlight Reinsurance, Ltd. and Verdant Holding Company, Ltd., unless the context dictates otherwise. References to our "Ordinary Shares" refers collectively to our Class A Ordinary Shares and Class B Ordinary Shares.

The following is a discussion and analysis of our results of operations for the three and six months ended June 30, 2009 and 2008 and financial condition as of June 30, 2009 and December 31, 2008. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes thereto contained in our annual report on Form 10-K for the fiscal year ended December 31, 2008.

### Special Note About Forward-Looking Statements

Certain statements in Management's Discussion and Analysis ("MD&A"), other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements generally are identified by the words "believe," "project," "predict," "expect," "anticipate," "estimate," "intend," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" (refer to Part I, Item 1A) contained in our annual report on Form 10-K for the fiscal year ended December 31, 2008. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned not to place undue reliance on the forward looking statements which speak only to the dates on which they were made.

We intend to communicate certain events that we believe may have a material adverse impact on the Company's operations or financial position, including property and casualty catastrophic events and material losses in our investment portfolio, in a timely manner through a public announcement. Other than as required by the Exchange Act, we do not intend to make public announcements regarding reinsurance or investments events that we do not believe, based on management's estimates and current information, will have a material adverse impact to the Company's operations or financial position.

### General

We are a Cayman Islands-based specialist property and casualty reinsurer with a reinsurance and investment strategy that we believe differentiates us from our competitors. Our goal is to build long-term shareholder value by selectively offering customized reinsurance solutions in markets where capacity and alternatives are limited, which we believe will provide us with favorable long-term returns on equity.

We aim to complement our underwriting results with a non-traditional investment approach in order to achieve higher rates of return over the long term than reinsurance companies that employ more traditional, fixed-income investment strategies. We manage our investment portfolio according to a value-oriented philosophy, in which we take long positions in perceived undervalued securities and short positions in perceived overvalued securities.

In addition, we seek to form strategic alliances with insurance companies and general agents to complement our property and casualty reinsurance business and our non-traditional investment approach. To facilitate such strategic alliances, we formed Verdant, our wholly owned subsidiary, principally for the purpose of making strategic investments in a select group of property and casualty insurers and general agents in the U.S.

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Because we have a limited operating history and employ an opportunistic underwriting philosophy, period-to-period comparisons of our underwriting results may not be meaningful. In addition, our historical investment results may not be indicative of future performance. Due to the nature of our reinsurance and investment strategies, our operating results will likely fluctuate from period to period.

Segments

We manage our business on the basis of one operating segment, property and casualty reinsurance, in accordance with the qualitative and quantitative criteria established by SFAS 131, "Disclosure about Segments of an Enterprise and Related Information." Within the property and casualty reinsurance segment, we analyze our underwriting operations using two categories:

- frequency business; and

- severity business.

Frequency business is characterized by contracts containing a potentially large number of relatively smaller losses emanating from multiple events. Clients generally buy this protection to increase their own underwriting capacity and typically select a reinsurer based upon the reinsurer’s financial strength and expertise. We expect the results of frequency business to be less volatile than those of severity business from period to period due to greater predictability of the frequency business. We also expect that over time the profit margins and return on equity of our frequency business will be lower than those of our severity business.

Severity business is typically characterized by contracts with the potential for significant losses emanating from one event or multiple events. Clients generally buy this protection to remove volatility from their balance sheets, and accordingly, we expect the results of severity business to be volatile from period to period. However, over the long term, we also expect that our severity business will generate higher profit margins and return on equity than those of our frequency business.

Outlook and Trends

We believe there currently is a lack of capacity in the property and casualty industry due to significant loss of capital from combined investment and underwriting losses in 2008. As a result, we expect to continue seeing significant opportunities to expand our business through the remainder of 2009 in both frequency and severity risks. We believe insurance pricing generally will continue to increase through 2010. Further, volatile lines of business may experience significant increases in pricing along with greater restrictions on the terms and conditions of insurance coverage. We believe that market conditions will harden during 2010 due to worldwide economic conditions and limited available capital expected to enter the industry. Countering these developments, we also believe that a slowdown in worldwide economic activity may lead to reduced insurable risk exposures, which in turn may decrease the demand for insurance, perhaps significantly. In addition, competitive conditions could return if our competitors believe they now are able to raise additional capital to fund growth.

We believe that we are well positioned to compete for attractive opportunities in frequency business due to our increasing market recognition, and the development of certain strategic relationships. In addition, there are a number of insurers and reinsurers that have had significant investment-related issues that have created uncertainty in their businesses. We expect write downs of certain asset classes from 2008 to continue to reduce the capital positions of a number of reinsurers. Further, we believe that the financial and credit crisis in the U.S. and the rest of the world has the potential to cause significant losses in certain lines of business.

If the current challenges facing the insurance industry create significant dislocations, we believe we will be well positioned to capitalize on and compete for resulting opportunities. In the first half of 2009, we have seen pricing of property catastrophe retrocession business increase substantially. While it is unclear what other businesses could be significantly affected by the current financial and credit issues, we believe that opportunities are likely to arise in a number of areas, including the following:

- lines of business that experience significant loss experience;
- lines of business where current market participants are experiencing financial distress or uncertainty; and
- business that is premium and capital intensive due to regulatory and other requirements.

Significant market dislocations that increase the pricing of certain insurance coverages could create the need for insureds to retain risks and therefore fuel the opportunity or need to form new captives. If this happens, a number of these captives could form in the Cayman Islands, enhancing our opportunity to provide additional reinsurance to the Cayman Islands' captive market.

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Despite an increase in the S&P 500 index of 37.9% from its low in March 2009 to the end of the quarter, we believe the economic outcome is highly uncertain which may prolong the current market volatility. Our investment portfolio moved towards a more defensive position during the second quarter of 2009 ending with a net equity exposure of 7%. We will continue our defensive posture until security selection becomes the primary driver of performance. In the meantime, we continue to identify investment opportunities in the current environment created by mispriced securities, both in equities and the distressed debt of corporate issuers.

In addition, we recently formed Verdant, a Delaware corporation, principally for the purpose of making strategic investments in a select group of property and casualty insurers and general agents in the U.S. to complement our property and casualty reinsurance business and our non-traditional investment approach. These strategic investments further differentiate us from our competition, provide capital and capacity to certain clients and create value for our shareholders through investment returns, fee income streams and underwriting profits.

We intend to continue monitoring market conditions to position ourselves to participate in future underserved or capacity-constrained markets as they arise and intend to offer products that we believe will generate favorable returns on equity over the long term. Accordingly, our underlying results and product line concentrations in any given period may not be indicative of our future results of operations.

## Critical Accounting Policies

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect reported and disclosed amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. We believe that the critical accounting policies set forth in our annual report on Form 10-K for the fiscal year ended December 31, 2008 continue to describe the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. These accounting policies pertain to premium revenue recognition, investment valuations, loss and loss adjustment expenses, acquisition costs, and share-based payments. If actual events differ significantly from the underlying judgments or estimates used by management in the application of these accounting policies, there could be a material effect on our results of operations and financial condition.

Recently issued accounting standards and their impact to the Company have been presented under "Recently Issued Accounting Standards" in Note 2 of the accompanying condensed consolidated financial statements.

## Results of Operations

### Three and Six Months Ended June 30, 2009 and 2008

For the three months ended June 30, 2009, we reported net income of $92.2 million, as compared to $33.5 million reported for the same period in 2008. The increase in net income is principally due to our investment portfolio reporting a net gain of $88.3 million, or a return of 13.9%, for the second quarter of 2009 as compared to a net investment income of $31.0 million, or a return of 4.5%, for the same period in 2008. Underwriting income reported for the three months ended June 30, 2009 increased by $4.1 million to $10.2 million from $6.1 million reported for the three months ended June 30, 2008.

For the six months ended June 30, 2009, we reported a net income of $120.0 million, as compared to net income of $28.8 million reported for the same period in 2008. The increase in net income is principally due to our investment portfolio reporting a net gain of $116.0 million, or a return of 19.1%, for the six months ended June 30, 2009 as compared to a net investment income of $25.3 million, or a return of 3.6%, for the same period in 2008. Underwriting income reported for the six months ended June 30, 2009 increased by $1.4 million to $13.0 million from $11.6 million reported for the six months ended June 30, 2008.

As a result of adopting SFAS No. 160, the non-controlling interest in joint venture was reclassified from liabilities into shareholders' equity for all periods presented. As a result of this reclassification, the recalculated fully diluted book value per share at December 31, 2008 was $13.55 per share (compared to $13.39 per share at December 31, 2008 prior to adopting SFAS No. 160).

Our primary financial goal is to increase the long-term value in fully diluted book value per share. During the three months ended June 30, 2009, fully diluted book value increased by $2.48 per share, or 17.4%, to $16.73 per share from $14.25 per share at March 31, 2009. During the six months ended June 30, 2009, fully diluted book value increased by $3.18 per share, or 23.5%, to $16.73 per share from $13.55 per share at December 31, 2008. Fully diluted book value per share is a non-GAAP measure and represents basic book value per share combined with the impact from dilution of share based compensation including in-the-money stock options as of any period end. We believe that long term growth in fully diluted book value per share is the most relevant measure of our financial performance. In addition, fully diluted book value per share may be of benefit to our investors, shareholders, and other interested parties to form a basis of comparison with other companies within the reinsurance industry.

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Premiums Written

Details of gross premiums written are provided below:

| | Three months ended June 30, ($ in thousands) | | | | Six months ended June 30, ($ in thousands) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| Frequency | $ 67,047 | 95.7 % | $ 20,801 | 82.0 % | $ 113,846 | 80.2% | $ 77,646 | 80.8% |
| Severity | 3,000 | 4.3 | 4,559 | 18.0 | 28,072 | 19.8 | 18,480 | 19.2 |
| Total | $ 70,047 | 100.0 % | $ 25,360 | 100.0% | $ 141,918 | 100.0% | $ 96,126 | 100.0% |

We expect quarterly reporting of premiums written to remain volatile as our underwriting portfolio continues to develop. Additionally, the composition of premiums written between frequency and severity business will vary from quarter to quarter depending on the specific market opportunities that we pursue. The volatility in premiums is reflected in the premiums written for both frequency business and severity business when comparing the three and six month periods ended June 30, 2009 and 2008. For the three months ended June 30, 2009, the frequency premiums increased by $46.2 million. The largest contributor to the increase was a new multi-year homeowners' personal lines contract entered into during the second quarter of 2009 accounting for $17.7 million of the increase. Increases in motor liability and health coverage premiums accounted for $8.3 million and $6.1 million of the increases respectively. In addition, frequency premiums written for general liability line were higher by $5.5 million. A contract entered into during July 2008 accounted for $12.5 million of the increase, offset by a $7.0 million reduction on another general liability contract which was renewed in May 2009 as a quota share contract whereas the expiring contract was an excess of loss contract. Premiums written on quota share contracts are recorded over the period of coverage while premiums written on an excess of loss contract are recorded in full at inception. Workers' compensation premiums written accounted for $3.3 million of the increase. The remaining increases in frequency premiums resulted from premiums returned and premiums adjusted during the three months ended June 30, 2008.

For the six months ended June 30, 2009, the $36.2 million increase in frequency premiums written was largely attributable to a new multi-year homeowners' personal lines contract which accounted for $17.7 million of the increase. In addition, workers' compensation, and general liability lines contributed $8.5 million, and $6.8 million, respectively, to the increase in frequency premiums written. These increases in premiums written were offset by decreases in the specialty health premiums written of $2.5 million during the six months ended June 30, 2009.

For the three months ended June 30, 2009, the decrease in severity premiums of $1.6 million was principally due to the fact that the comparative prior period included a multi-year professional liability contract for which the premiums were written in full at inception.

For the six months ended June 30, 2009, the increase in severity premiums of $9.6 million was principally due to an increase in commercial property lines, primarily from a new excess of loss contract written ($11.5 million) and additional premiums on an existing excess of loss contract ($2.5 million), offset by a decrease in medical malpractice lines ($4.5 million). A detailed analysis of gross premiums written by line of business can be found in Note 8 to the condensed consolidated financial statements.

For the six months ended June 30, 2009, our ceded premiums were $7.8 million compared to $14.9 million of ceded premiums for the same period in 2008. The decrease in ceded premiums is primarily the result of a specialty health frequency contract and its corresponding retroceded contracts which expired during 2009 and were not renewed.

Details of net premiums written are provided below:

| | Three months ended June 30, ($ in thousands) | | | | Six months ended June 30, ($ in thousands) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| Frequency | $ 60,716 | 95.7 % | $ 15,186 | 76.9% | $ 106,769 | 79.6% | $ 62,758 | 77.3% |
| Severity | 2,720 | 4.3 | 4,559 | 23.1 | 27,318 | 20.4 | 18,481 | 22.7 |
| Total | $ 63,436 | 100.0 % | $ 19,745 | 100.0% | $ 134,087 | 100.0% | $ 81,239 | 100.0% |

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Net Premiums Earned

Net premiums earned reflect the pro rata inclusion into income of net premiums written over the life of the reinsurance contracts. Details of net premiums earned are provided below:

| | Three months ended June 30, ($ in thousands) | | | | Six months ended June 30, ($ in thousands) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| Frequency | $ 38,154 | 77.3 % | $ 15,341 | 62.2% | $ 70,032 | 73.3% | $ 33,295 | 63.8% |
| Severity | 11,193 | 22.7 | 9,341 | 37.8 | 25,508 | 26.7 | 18,879 | 36.2 |
| Total | $ 49,347 | | | | | | | |