GREENLIGHT CAPITAL RE, LTD.
Form 10-Q
October 23, 2015

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 September 30, 2015

or

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

For the transition period from to

Commission file number 001-33493

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.)
65 MARKET STREET SUITE 1207, CAMANA BAY P.O. BOX 31110 GRAND CAYMAN 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 ¨

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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 x Accelerated filer ¨

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

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

Yes ¨ No x

Class A Ordinary Shares, $0.10 par value	30,772,572
Class B Ordinary Shares, $0.10 par value	6,254,895
(Class)	Outstanding as of October 22, 2015

GREENLIGHT CAPITAL RE, LTD.

TABLE OF CONTENTS

Return to table of contents

PART I — FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2015 and December 31, 2014
(expressed in thousands of U.S. dollars, except per share and share amounts)

	September 30, 2015 (unaudited)	December 31, 2014 (audited)
Assets		
Investments		
Debt instruments, trading, at fair value	$28,657	$49,212
Equity securities, trading, at fair value	966,755	1,266,175
Other investments, at fair value	108,125	115,591
Total investments	1,103,537	1,430,978
Cash and cash equivalents	99,351	12,030
Restricted cash and cash equivalents	1,046,157	1,296,914
Financial contracts receivable, at fair value	14,872	47,171
Reinsurance balances receivable	156,952	151,185
Loss and loss adjustment expenses recoverable	3,253	11,523
Deferred acquisition costs, net	54,023	34,420
Unearned premiums ceded	2,680	4,027
Notes receivable	27,546	1,566
Other assets	6,008	5,478
Total assets	$2,514,379	$2,995,292
Liabilities and equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$800,105	$1,090,731
Financial contracts payable, at fair value	25,864	44,592
Due to prime brokers	266,975	211,070
Loss and loss adjustment expense reserves	302,165	264,243
Unearned premium reserves	189,945	128,736
Reinsurance balances payable	18,652	40,372
Funds withheld	6,428	6,558
Other liabilities	12,629	14,949
Total liabilities	1,622,763	1,801,251
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, 30,772,572 (2014: 31,129,648): Class B: par value $0.10; authorized, 25,000,000; issued and outstanding, 6,254,895 (2014: 6,254,895))	3,703	3,738
Additional paid-in capital	495,258	500,553
Retained earnings	368,392	660,860
Shareholders’ equity attributable to shareholders	867,353	1,165,151
Non-controlling interest in joint venture	24,263	28,890
Total equity	891,616	1,194,041

Total liabilities and equity	$2,514,379	$2,995,292

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

Return to table of contents

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

For the three and nine months ended September 30, 2015 and 2014
(expressed in thousands of U.S. dollars, except per share and share amounts)

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Revenues				
Gross premiums written	$134,568	$97,200	$357,240	$249,755
Gross premiums ceded	(2,288)	(2,706)	(5,782)	(11,405)
Net premiums written	132,280	94,494	351,458	238,350
Change in net unearned premium reserves	(30,286)	(15,003)	(62,986)	40,685
Net premiums earned	101,994	79,491	288,472	279,035
Net investment income (loss)	(191,322)	(54,027)	(236,456)	49,755
Other income (expense), net	(542)	2,664	(2,714)	1,445
Total revenues	(89,870)	28,128	49,302	330,235
Expenses				
Loss and loss adjustment expenses incurred, net	97,421	53,028	237,281	177,035
Acquisition costs, net	32,146	22,478	82,926	85,844
General and administrative expenses	5,382	6,013	18,436	17,771
Total expenses	134,949	81,519	338,643	280,650
Income (loss) before income tax expense	(224,819)	(53,391)	(289,341)	49,585
Income tax benefit	1,233	254	1,394	828
Net income (loss) including non-controlling interest	(223,586)	(53,137)	(287,947)	50,413
Loss (income) attributable to non-controlling interest in joint venture	3,909	1,369	4,627	(1,509)
Net income (loss)	$(219,677)	$(51,768)	$(283,320)	$48,904
Earnings (loss) per share				
Basic	$(5.98)	$(1.40)	$(7.73)	$1.31
Diluted	$(5.98)	$(1.40)	$(7.73)	$1.29
Weighted average number of ordinary shares used in the determination of earnings and loss per share				
Basic	36,710,216	36,984,650	36,636,464	37,214,809
Diluted	36,710,216	36,984,650	36,636,464	37,874,627

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

Return to table of contents

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

For the nine months ended September 30, 2015 and 2014
(expressed in thousands of U.S. dollars)

	Ordinary share capital	Additional paid-in capital	Retained earnings	Shareholders' equity attributable to shareholders	Non-controlling interest in joint venture	Total equity
Balance at December 31, 2013	$3,705	$496,622	$551,268	$1,051,595	$ 34,709	$1,086,304
Issue of Class A ordinary shares, net of forfeitures	28	—	—	28	—	28
Share-based compensation expense, net of forfeitures	—	3,016	—	3,016	—	3,016
Non-controlling interest withdrawal from joint venture, net	—	—	—	—	(5,000)	(5,000)
Income (loss) attributable to non-controlling interest in joint venture	—	—	—	—	1,509	1,509
Net income (loss)	—	—	48,904	48,904	—	48,904
Balance at September 30, 2014	$3,733	$499,638	$600,172	$1,103,543	$ 31,218	$1,134,761
Balance at December 31, 2014	$3,738	$500,553	$660,860	$1,165,151	$ 28,890	$1,194,041
Issue of Class A ordinary shares, net of forfeitures	26	—	—	26	—	26
Repurchase of Class A ordinary shares	(61)	(8,483)	(9,148)	(17,692)	—	(17,692)
Share-based compensation expense, net of forfeitures	—	3,188	—	3,188	—	3,188
Non-controlling interest withdrawal from joint venture, net	—	—	—	—	—	—
Income (loss) attributable to non-controlling interest in joint venture	—	—	—	—	(4,627)	(4,627)
Net income (loss)	—	—	(283,320)	(283,320)	—	(283,320)
Balance at September 30, 2015	$3,703	$495,258	$368,392	$867,353	$ 24,263	$891,616

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

5

Return to table of contents

GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
For the nine months ended September 30, 2015 and 2014
(expressed in thousands of U.S. dollars)

	Nine months ended September 30	
	2015	2014
Cash provided by (used in) operating activities		
Net income (loss)	$(283,320)	$48,904
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Net change in unrealized gains and losses on investments and financial contracts	216,539	182,681
Net realized gains on investments and financial contracts	(30,587)	(266,708)
Foreign exchange (gains) losses on investments	21,496	6,032
Income (loss) attributable to non-controlling interest in joint venture	(4,627)	1,509
Share-based compensation expense, net of forfeitures	3,214	3,044
Depreciation expense	304	334
Net change in		
Reinsurance balances receivable	(5,767)	1,825
Loss and loss adjustment expenses recoverable	8,270	5,615
Deferred acquisition costs, net	(19,603)	13,552
Unearned premiums ceded	1,347	(2,091)
Other assets	(834)	(3,223)
Loss and loss adjustment expense reserves	37,922	(51,390)
Unearned premium reserves	61,209	(39,136)
Reinsurance balances payable	(21,720)	4,262
Funds withheld	(130)	(2,664)
Other liabilities	(2,320)	377
Performance compensation payable to related party	—	10,852
Net cash provided by (used in) operating activities	(18,607)	(86,225)
Investing activities		
Purchases of investments, trading	(827,800)	(898,614)
Sales of investments, trading	895,234	1,059,145
Purchases of financial contracts	(14,366)	(16,697)
Dispositions of financial contracts	3,749	101,522
Securities sold, not yet purchased	734,877	710,954
Dispositions of securities sold, not yet purchased	(939,264)	(791,357)
Change in due to prime brokers	55,905	(48,025)
Change in restricted cash and cash equivalents, net	241,265	(39,126)
Change in notes receivable, net	(25,980)	18,503
Non-controlling interest withdrawal from joint venture, net	—	(5,000)
Net cash (used in) provided by investing activities	123,620	91,305
Financing activities		
Repurchase of Class A ordinary shares	(17,692)	—
Net cash used in financing activities	(17,692)	—
Net increase (decrease) in cash and cash equivalents	87,321	5,080
Cash and cash equivalents at beginning of the period	12,030	3,722

Cash and cash equivalents at end of the period	$99,351	$8,802
Supplementary information		
Interest paid in cash	$19,237	$17,302

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

Return to table of contents

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

September 30, 2015

1. ORGANIZATION AND BASIS OF PRESENTATION

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. ("Greenlight Re"), provides global specialty property and casualty reinsurance. Greenlight Re has a Class D insurer license issued in accordance with the terms of The Insurance Law, 2010 and underlying regulations thereto (the "Law") and is subject to regulation by the Cayman Islands Monetary Authority ("CIMA"), in terms of the Law. Greenlight Re 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. During 2008, Verdant Holding Company, Ltd. ("Verdant"), a wholly owned subsidiary of GLRE, was incorporated in the state of Delaware. During 2010, GLRE established Greenlight Reinsurance Ireland, Ltd. ("GRIL"), a wholly-owned reinsurance subsidiary based in Dublin, Ireland. GRIL is authorized as a non-life reinsurance undertaking in accordance with the provisions of the European Communities (Reinsurance) Regulations 2006 ("Irish Regulations"). GRIL provides multi-line property and casualty reinsurance capacity to the European broker market and provides GLRE with an additional platform to serve clients located in Europe and North America. As used herein, the "Company" refers collectively to GLRE and its consolidated subsidiaries.

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

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, 2014. In the opinion of management, these unaudited condensed consolidated financial statements reflect all of 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 nine months ended September 30, 2015 are not necessarily indicative of the results expected for the full calendar year.

Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation. Prior to January 1, 2015, non-investment related foreign exchange gains and losses were recorded under general and administrative expenses in the condensed consolidated statements of income. Effective from January 1, 2015, the presentation has been modified and any non-investment related foreign exchange gains or losses are now recorded under “Other income (expense), net” in the condensed consolidated statements of income. As a result, foreign exchange gains of $2.7 million and $1.0 million that were previously reported in general and administrative expenses for the three and nine months ended September 30, 2014, respectively, were reclassified as “Other income (expense), net” to conform to the current year presentation. The reclassifications resulted in no changes to net income or retained earnings for any of the periods presented.

2. SIGNIFICANT ACCOUNTING POLICIES

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 condensed consolidated financial statements and the reported amounts of income and expenses during the period. Actual results could differ from these estimates.

Return to table of contents

Restricted Cash and Cash Equivalents

The Company is required to maintain certain cash in segregated accounts with prime brokers and derivative counterparties. The amount of restricted cash held by prime brokers is primarily used to support the liability created from securities sold, not yet purchased, and to collateralize the letters of credit issued under certain letter of credit facilities (see Notes 4 and 9). The amount of cash encumbered varies depending on the market value of the securities sold, not yet purchased, and letters of credit issued. In addition, derivative counterparties require cash collateral to support the current value of any amounts that may be due to the counterparty based on the value of the underlying financial instrument.

Deferred Acquisition Costs

Policy acquisition costs, such as commission and brokerage costs, relate directly to, and vary with, the writing of reinsurance contracts. Acquisition costs relating solely to bound contracts are deferred subject to ultimate recoverability and are amortized over the related contract term. The Company evaluates the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment income is greater than the expected future claims and expenses. If a loss is probable on the unexpired portion of policies in force, a premium deficiency loss is recognized. At September 30, 2015 and December 31, 2014, the deferred acquisition costs were considered fully recoverable and no premium deficiency loss was recorded.

Acquisition costs also include profit commissions which are expensed when incurred. Profit commissions are calculated and accrued based on the expected loss experience for contracts and recorded when the current loss estimate indicates that a profit commission is probable under the contract terms. As of September 30, 2015, $15.3 million (December 31, 2014: $11.0 million) of profit commission reserves were included in reinsurance balances payable on the condensed consolidated balance sheets. For the three and nine months ended September 30, 2015, $4.2 million and $5.8 million, respectively, (2014: $0.4 million and $1.8 million, respectively), of net profit commission expense was included in acquisition costs on the condensed consolidated statements of income.

Loss and Loss Adjustment Expense Reserves and Recoverable

The Company establishes reserves for contracts based on estimates of the ultimate cost of all losses including losses incurred but not reported ("IBNR"). These estimated ultimate reserves are based on the Company’s own actuarial estimates derived from reports received from ceding companies, industry data and historical experience. These estimates are reviewed by the Company periodically on a contract by contract basis and adjusted as 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 expenses recoverable include the amounts due from retrocessionaires for 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 expenses recoverable when recovery is no longer probable.

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. Interest income and realized gains or losses on sale of notes receivable are included under net investment income (loss) in the condensed consolidated statements of income.

The Company regularly reviews all notes receivable individually for impairment and records valuation allowance provisions for uncollectible and non-performing notes. The Company places notes on non-accrual status when the recorded value of the note is not considered impaired but there is uncertainty as to the collection of interest based on the terms of the note. The Company resumes accrual of interest on a note when none of the principal or interest remains past due, and the Company expects to collect the remaining contractual principal and interest. Interest collected on notes that are placed on non-accrual status is treated on a cash-basis and recorded as interest income when collected, provided that the recorded value of the note is deemed to be fully collectible. Where doubt exists as to the collectability of the remaining recorded value of the notes placed on non-accrual status, any payments received are applied to reduce the recorded value of the notes.

Return to table of contents

At September 30, 2015, $23.9 million of notes receivable (net of any valuation allowance) were on non-accrual status (December 31, 2014: $0.0 million) and any payments received are applied to reduce the recorded value of the notes. The increase in notes receivable during the nine months ended September 30, 2015, related to a settlement agreement entered into with a ceding insurer during the first quarter of 2015 whereby certain amounts, previously classified under reinsurance balances receivable, were converted into a ten-year note receivable.

At September 30, 2015 and December 31, 2014, there was no accrued interest included in the notes receivable balance. Based on management's assessment, the recorded values of the notes receivable, net of any valuation allowance, at September 30, 2015 and December 31, 2014, were expected to be fully collectible.

Deposit Assets and Liabilities

In accordance with U.S. GAAP, deposit accounting is used in the event that a reinsurance contract does not transfer sufficient insurance risk, or a contract provides retroactive reinsurance. Any losses on such contracts are charged to earnings immediately. 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 September 30, 2015 and December 31, 2014, there were no material deposit assets or deposit liabilities and no material gains or losses on deposit accounted contracts.

Financial Instruments

Investments in Securities and Investments in Securities Sold, Not Yet Purchased

The Company's investments in debt instruments and equity securities that are classified as "trading securities" are carried at fair value. The fair values of the listed equity investments are derived based on quoted prices (unadjusted) in active markets for identical assets (Level 1 inputs). The fair values of listed equities that have restrictions on sale or transfer which expire within one year, are determined by adjusting the observed market price of the equity using a liquidity discount based on observable market inputs. The fair values of 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).

The Company's "other investments" may include investments in private and unlisted equity securities, limited partnerships and commodities, which are all carried at fair value. The fair values of commodities are determined based on quoted prices in active markets for identical assets (Level 1). 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 and unlisted 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, including the most recent net asset values obtained from the managers of those underlying investments.

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

Return to table of contents

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. The Company’s derivative financial instrument assets are included in financial contracts receivable. Derivative financial instrument liabilities are generally included in financial contracts payable. The Company's derivatives do not qualify as hedges for financial reporting purposes and are recorded in the condensed consolidated balance sheets on a gross basis and not offset against any collateral pledged or received. Pursuant to the International Swaps and Derivatives Association ("ISDA") master agreements, securities lending agreements and other agreements, the Company and its counterparties typically have the ability to net certain payments owed to each other in specified circumstances. In addition, in the event a party to one of the ISDA master agreements, securities lending agreements or other agreements defaults, or a transaction is otherwise subject to termination, the non-defaulting party generally has the right to set off against payments owed to the defaulting party or collateral held by the non-defaulting party. The Company may from time to time enter into underwriting contracts such as industry loss warranty contracts ("ILW") that are treated as derivatives for U.S GAAP purposes.

Financial Contracts

The Company enters into financial contracts with counterparties as part of its investment strategy. Financial contracts, which include total return swaps, credit default swaps ("CDS"), futures, options, currency forwards and other derivative instruments, are recorded at their fair value with any unrealized gains and losses included in net investment income (loss) in the condensed consolidated statements of income. Financial contracts receivable represents derivative contracts whereby, based upon the contract's current fair value, the Company will be entitled to receive payments upon settlement of the contract. Financial contracts payable represents derivative contracts whereby, based upon each contract's current fair value, the Company will be obligated to make payments upon settlement of the contract.

Total return swap agreements, included on 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 may not own, over a specified time frame. In addition, the Company may also be obligated to pay or receive other payments based on interest rates, 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 (loss) in the condensed consolidated statements of income. Additionally, any changes in the value of amounts received or paid on swap contracts are reported as a gain or loss in net investment income (loss) 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, equity security, commodity, currency or interest rate. Where such contracts are traded in an active market, the Company’s obligations or rights on these contracts are recorded at fair value based on the observable quoted prices of the same or similar financial contracts in an active market (Level 1) or on broker quotes which reflect market information based on actual transactions (Level 2). Amounts invested in exchange traded options and over the counter ("OTC") options are recorded either 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). 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) such as multiple quotes from brokers and market makers, which are considered to be binding.

The Company may purchase and sell CDS for 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 pay 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. A CDS trading in an active market is 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).

The Company may purchase ILWs to manage its exposure to weather related events. An ILW is designated as a weather derivative swap and included in financial contracts receivable. The carrying amount of an ILW is the unamortized portion of the premium paid for an ILW. An estimate of fair value is not practicable since ILW contracts are generally not exchange traded, and the time and cost involved in creating a valuation model to estimate the fair value would be excessive relative to the size and duration of the ILW.

Return to table of contents

Comprehensive Income (Loss)

The Company has no other comprehensive income or loss, other than the net income or loss disclosed in the condensed consolidated statements of income.

Earnings (Loss) 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 includes the dilutive effect of restricted stock units ("RSU") and additional potential common shares issuable when stock options are exercised and are determined using the treasury stock method. The Company treats its unvested restricted stock as participating securities in accordance with U.S. GAAP, which 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. In the event of a net loss, all RSUs, stock options outstanding and participating securities are excluded from the calculation of both basic and diluted loss per share since their inclusion would be anti-dilutive.

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Weighted average shares outstanding - basic	36,710,216	36,984,650	36,636,464	37,214,809
Effect of dilutive service provider share-based awards	—	—	—	11,383
Effect of dilutive employee and director share-based awards	—	—	—	648,435
Weighted average shares outstanding - diluted	36,710,216	36,984,650	36,636,464	37,874,627
Anti-dilutive stock options outstanding	250,018	—	151,821	—
Participating securities excluded from calculation of loss per share	307,663	334,090	307,663	—

Taxation

Under current Cayman Islands law, no corporate entity, including GLRE and Greenlight Re, 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 GLRE, Greenlight Re nor their respective 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 U.S. Internal Revenue Service ("IRS"). Verdant’s taxable income is generally expected to be taxed at a rate of 35%.

GRIL is incorporated in Ireland and therefore is subject to the Irish corporation tax rate of 12.5% on its trading income, and 25% on its non-trading income, if any.

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. The Company has not taken any income tax positions that are subject to significant uncertainty or that are reasonably likely to have a material impact on the Company.

Recent Accounting Pronouncements

In May 2015, the FASB issued Accounting Standards Update 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share or Its Equivalent" ("ASU 2015-07"). The amendments apply to reporting entities that elect to measure the fair value of an investment using the net asset value ("NAV") per share (or its equivalent) as a practical expedient. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share as a practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be

Return to table of contents

measured at fair value using the NAV per share as a practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendments in ASU 2015-07 are effective for reporting periods beginning after December 15, 2015, with early adoption permitted. Entities are required to apply the amendments in this update retrospectively to all periods presented. As the Company measures certain investments in private equity funds using the NAV as a practicable expedient, upon adoption of ASU 2015-07, the fair value of these investments will be removed from the fair value hierarchy for all periods presented in the Company's condensed consolidated financial statements. The Company will continue to disclose information on these investments for which fair value is measured at NAV as a practical expedient.

In May 2015, the FASB issued ASU 2015-09, "Financial Services - Insurance (Topic 944): Disclosures about Short-Duration Contracts" ("ASU 2015-09"). ASU 2015-09 requires additional disclosures for short-duration contracts including incurred and paid claims development information, claims duration information, quantitative claims frequency information (unless impracticable), and an explanation of significant changes in methodologies and assumptions used to calculate the loss and loss adjustment expense reserves. ASU 2015-09 is effective for public entities for annual reporting periods beginning after December 15, 2015, and interim reporting periods within annual reporting periods beginning after December 15, 2016 with early adoption permitted. The Company is evaluating the impact of the disclosure requirements of ASU 2015-09 and is preparing to disclose the additional information in its consolidated financial statements for the fiscal year ending December 31, 2016 and thereafter.

3. FINANCIAL INSTRUMENTS

In the normal course of its business, the Company purchases and sells various financial instruments, which include listed and unlisted equities, corporate and sovereign debt, commodities, futures, put and call options, currency forwards, other derivatives and similar instruments sold, not yet purchased.

Fair Value Hierarchy

The Company's financial instruments are carried at fair value, and the net unrealized gains or losses are included in net investment income (loss) 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 September 30, 2015:

	Fair value measurements as of September 30, 2015			
Description	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:	($ in thousands)			
Debt instruments	$—	$28,126	$531	$28,657
Listed equity securities	958,072	8,683	—	966,755
Commodities	88,143	—	—	88,143
Private and unlisted equity securities	—	—	19,982	19,982
Financial contracts receivable	194	14,050	628	14,872
	$1,046,409	$50,859	$21,141	$1,118,409
Liabilities:				
Listed equity securities, sold not yet purchased	$(721,349)	$—	$—	$(721,349)

Debt instruments, sold not yet purchased	—	(78,756)	—	(78,756)
Financial contracts payable	(1,005)	(24,859)	—	(25,864)
	$(722,354)	$(103,615)	$—	$(825,969)

Return to table of contents

The following table presents the Company's investments, categorized by the level of the fair value hierarchy as of December 31, 2014:

Description	Fair value measurements as of December 31, 2014 Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:	($ in thousands)			
Debt instruments	$—	$26,953	$22,259	$49,212
Listed equity securities	1,259,298	6,877	—	1,266,175
Commodities	96,872	—	—	96,872
Private and unlisted equity securities	—	—	18,719	18,719
Financial contracts receivable	2,463	44,708	—	47,171
	$1,358,633	$78,538	$40,978	$1,478,149
Liabilities:				
Listed equity securities, sold not yet purchased	$(834,228)	$—	$—	$(834,228)
Debt instruments, sold not yet purchased	—	(256,503)	—	(256,503)
Financial contracts payable	—	(44,592)	—	(44,592)
	$(834,228)	$(301,095)	$—	$(1,135,323)

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 nine months ended September 30, 2015:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three months ended September 30, 2015 Assets					Liabilities
	Debt instruments	Private and unlisted equity securities	Financial contracts receivable	Listed equity securities	Total	Financial contracts payable
	($ in thousands)					
Beginning balance	$22,181	$19,189	$3,716	$5,189	$50,275	$8,835
Purchases	—	2,234	—	—	2,234	—
Sales	(21,561)	(1,367)	—	—	(22,928)	—
Issuances	—	—	—	—	—	—
Settlements	—	—	—	—	—	—
Total realized and unrealized gains (losses) and amortization included in earnings, net	(89)	(74)	(1,239)	(692)	(2,094)	314
Transfers into Level 3	—	—	—	—	—	
Transfers out of Level 3	—	—	(1,849)	(4,497)	(6,346)	(9,149)
Ending balance	$531	$19,982	$628	$—	$21,141	$—

Return to table of contents

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
Nine months ended September 30, 2015					
Assets					Liabilities
Debt instruments	Private and unlisted equity securities	Financial contracts receivable	Listed equity securities	Total	Financial contracts payable
($ in thousands)					