

GREENLIGHT CAPITAL RE, LTD.  
Form 10-K  
February 21, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

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  
(State or Other Jurisdiction of  
Incorporation or Organization)

N/A  
(I.R.S. Employer  
Identification No.)

65 Market Street, Suite 1207, Camana Bay  
P.O. Box 31110  
Grand Cayman, KY1-1205  
Cayman Islands  
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: 345-943-4573

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on Which Registered
Class A ordinary shares, \$0.10 par value per share	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of voting and non-voting Class A ordinary shares held by non-affiliates of the registrant as of June 30, 2011 was \$685,240,541 based on the closing price of the registrant's Class A ordinary shares reported on the Nasdaq Global Select Market on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter. Solely for the purpose of this calculation and for no other purpose, the non-affiliates of the registrant are assumed to be all shareholders of the registrant other than (i) directors of the registrant, (ii) executive officers of the registrant who are identified as "named executives" pursuant to Item 11 of this Form 10-K, (iii) any shareholder that beneficially owns 10% or more of the registrant's common shares and (iv) any shareholder that has one or more of its affiliates on the registrant's board of directors. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of January 31, 2012, there were 30,277,009 Class A ordinary shares outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's 2012 annual meeting of shareholders, to be filed subsequently with the Securities and Exchange Commission, or the SEC, pursuant to Regulation 14A, under the Securities Exchange Act of 1934, as amended, or Exchange Act, relating to the registrant's annual general meeting of shareholders scheduled to be held on April 25, 2012 are incorporated by reference in Part III of this annual report on Form 10-K.

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## TABLE OF CONTENTS

	Page
<u>PART I</u>	3
<u>ITEM 1.</u> BUSINESS	4
<u>ITEM 1A.</u> RISK FACTORS	14
<u>ITEM 1B.</u> UNRESOLVED STAFF COMMENTS	28
<u>ITEM 2.</u> PROPERTIES	29
<u>ITEM 3.</u> LEGAL PROCEEDINGS	29
<u>ITEM 4.</u> MINE SAFETY DISCLOSURES	29
<u>PART II</u>	29
<u>ITEM 5.</u> MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	29
<u>ITEM 6.</u> SELECTED FINANCIAL DATA	30
<u>ITEM 7.</u> MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	32
<u>ITEM 7A.</u> QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	49
<u>ITEM 8.</u> FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	51
<u>ITEM 9.</u> CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	51
<u>ITEM 9A.</u> CONTROLS AND PROCEDURES	51
<u>ITEM 9B.</u> OTHER INFORMATION	52
<u>PART III</u>	52
<u>ITEM 10.</u> DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	52
<u>ITEM 11.</u> EXECUTIVE COMPENSATION	52
<u>ITEM 12.</u> SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	52
<u>ITEM 13.</u> CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	52
<u>ITEM 14.</u> PRINCIPAL ACCOUNTANT FEES AND SERVICES	52
<u>PART IV</u>	53
<u>ITEM 15.</u> EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	53
<u>EXHIBIT INDEX</u>	54
<u>SIGNATURES</u>	55



[Back to Table of Contents](#)

## PART I

### Special Note About Forward-Looking Statements

Certain statements in this Form 10-K, 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, as amended, and Section 21E of 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) and include but are not limited to:

Our results will fluctuate from period to period and may not be indicative of our long-term prospects;

If our losses and loss adjustment expenses greatly exceed our loss reserves, our financial condition may be significantly and negatively affected;

The property and casualty reinsurance market may be affected by cyclical trends;

The effect of emerging claim and coverage issues on our business is uncertain;

Rating agencies may downgrade or withdraw our rating;

We depend on DME Advisors, LP, or DME Advisors, to implement our investment strategy;

Loss of key executives could adversely impact our ability to implement our business strategy; and

Currency fluctuations could result in exchange rate losses and negatively impact our business.

We caution that the foregoing list of important factors is not intended to be and is not exhaustive. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise and all subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. If one or more risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statements in this Form 10-K reflect our current view with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth, strategy and liquidity. 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 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 events that we do not believe, based on management's estimates and current information, will have a material adverse impact on the Company's operations or financial position.



[Back to Table of Contents](#)

## ITEM 1. BUSINESS

Unless otherwise indicated or unless the context otherwise requires, all references in this annual report on Form 10-K to “the Company,” “we,” “us,” “our” and similar expressions are references to Greenlight Capital Re, Ltd. and its consolidated subsidiaries. Unless otherwise indicated or unless the context otherwise requires, all references in this annual report to entity names are as set forth in the following table:

Reference	Entity’s legal name
Greenlight Capital Re	Greenlight Capital Re, Ltd.
Greenlight Re	Greenlight Reinsurance, Ltd.
GRIL	Greenlight Reinsurance Ireland, Ltd.
Verdant	Verdant Holding Company, Ltd.

## Company Overview

Greenlight Capital Re is a holding company that was incorporated in July 2004 under the laws of the Cayman Islands. In August 2004, we raised gross proceeds of \$212.2 million from private placements of Greenlight Capital Re’s Class A ordinary shares and Class B ordinary shares; or, collectively, the ordinary shares. On May 24, 2007, Greenlight Capital Re raised proceeds of \$208.3 million, net of underwriting fees, in an initial public offering of Class A ordinary shares, as well as an additional \$50.0 million from a private placement of Class B ordinary shares.

We are a Cayman Islands headquartered global specialist property and casualty reinsurer with a reinsurance and investment strategy that we believe differentiates us from our competitors. We conduct our reinsurance operations through two licensed and regulated entities: Greenlight Re, based in the Cayman Islands, and GRIL, based in Dublin, Ireland. Our goal is to build long-term shareholder value by 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. In September 2010, we established GRIL to provide multi-line property and casualty reinsurance capacity to the European broker market and to further serve clients located in Europe.

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, from time to time we may seek to form long-term 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, which, among other activities, has made and may make strategic investments in a select group of property and casualty insurers and general agents in the United States.

Because we 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.

## Description of Business

We manage our business on the basis of one operating segment; property and casualty reinsurance. In September 2008, the Cayman Islands Monetary Authority granted approval for us to engage in long term business (e.g., life

insurance, long term disability, long term care, etc.) in addition to our current property and casualty reinsurance business, but to date we have not offered or written any long term products. We currently offer excess of loss and quota share products in the property and casualty market. Our underwriting operations are designed to capitalize on inefficiencies that we perceive exist in the traditional approach to underwriting. We believe that we conduct our business differently from traditional reinsurers in multiple ways, including:

we focus on offering customized reinsurance solutions to select customers at times and in markets where capacity and alternatives are limited rather than pursuing and participating in broadly available traditional property and casualty opportunities;

we aim to build a reinsurance portfolio of frequency and severity contracts with favorable ultimate economic results measured after all loss payments have been made rather than focusing on interim reported results when losses may be incurred but not yet reported or paid;

we seek to act as the lead underwriter on a majority of the contracts we underwrite in an effort to obtain greater influence in negotiating pricing, terms and conditions rather than focusing on taking a minority participation in contracts that have been negotiated and priced by another party;

we maintain a small staff of experienced generalist underwriters that are capable of underwriting many lines of property and casualty business rather than a large staff of underwriters, each with an individual, specific focus on certain lines of business;

we implement a “‘cradle to grave” service philosophy where the same individual underwrites and services each reinsurance contract rather than separating underwriting and servicing duties among many employees; and

we compensate our management with a cash bonus structure largely dependent on our underwriting results over a multi-year period rather than on premium volume or underwriting results in any given financial accounting period.



[Back to Table of Contents](#)

Our investment strategy, like our reinsurance strategy, is designed to maximize returns over the long term while minimizing the risk of capital loss. Unlike the investment strategies of many of our competitors, which invest primarily in fixed-income securities either directly or through fixed-fee arrangements with one or more investment managers, our investment strategy is to invest in long and short positions primarily in publicly-traded equity and corporate debt instruments exclusively through a joint venture with a third-party investment advisor that is compensated with both a fixed annual fee based on assets under management and on the positive performance of our portfolio. DME Advisors, which makes investments on our behalf, is a value-oriented investment advisor that analyzes companies' available financial data, business strategies and prospects in an effort to identify undervalued and overvalued securities. DME Advisors is controlled by David Einhorn, the Chairman of our Board of Directors and the president of Greenlight Capital, Inc. DME Advisors has the contractual right to manage substantially all of our investable assets until December 31, 2013 and is required to follow our investment guidelines and to act in a manner that is fair and equitable in allocating investment opportunities to us. However, DME Advisors is not otherwise restricted with respect to the nature or timing of making investments for our account.

We measure our success by long-term growth in book value per share, which we believe is the most comprehensive gauge of the performance of our business. Accordingly, our incentive compensation plans are designed to align employee and shareholder interests. Compensation under our cash bonus plan is largely dependent on the ultimate underwriting returns of our business measured over a multi-year period, rather than premium targets or estimated underwriting profitability for the year in which we initially underwrote the business.

We characterize the reinsurance risks we assume as frequency or severity and aim to balance the risks and opportunities of our underwriting activities by creating a diversified portfolio of both types of businesses, although we generally have a preference for frequency business.

Frequency business is characterized by contracts containing a potentially large number of 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 its greater predictability. We also expect that over time the profit margins and return on equity for 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 reduce 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 our frequency business.

While we intend to continue to add to, and diversify, our portfolio, our allocation of risk will vary based on our perception of the opportunities available in each line of business. Moreover, our focus on certain lines will fluctuate based upon market conditions and we may only offer or underwrite a limited number of lines in any given period. We intend to continue to:

target markets where capacity and alternatives are underserved or constrained;

seek clients with appropriate expertise in their line of business;

employ strict underwriting discipline;

select reinsurance opportunities with favorable returns on capital over the life of the contract; and

strengthen and expand relationships with existing clients.

The following table sets forth our gross premiums written by line of business for the years ended December 31, 2011, 2010 and 2009:

	2011		2010		2009 (1)	
	(\$ in thousands)					
Property						
Commercial lines	\$ 10,019	2.5%	\$ 15,468	3.7%	\$ 12,363	4.8%
Personal lines	158,482	39.9	185,216	44.7	48,183	18.6
Total Property	168,501	42.4	200,684	48.4	60,546	23.4
Casualty						
General liability	34,379	8.6	42,979	10.4	28,273	10.9
Marine liability	360	0.1	483	0.1	—	—
Motor liability	86,937	21.9	55,278	13.3	95,335	36.9
Motor physical damage	7,026	1.8	3,712	0.9	—	—
Professional liability	20,631	5.2	8,877	2.1	4,650	1.8
Total Casualty	149,333	37.6	111,329	26.8	128,258	49.6
Specialty						
Financial	12,364	3.1	16,650	4.0	—	—
Health	38,640	9.7	66,649	16.1	48,955	18.9
Medical malpractice	—	—	(1,929) (2)	(0.5)	1,033	0.4
Workers' compensation	28,821	7.2	21,467	5.2	20,026	7.7
Total Specialty	79,825	20.0	102,837	24.8	70,014	27.0
	\$ 397,659	100.0%	\$ 414,850	100.0%	\$ 258,818	100.0%

(1) During 2010, we refined our method of presenting the lines of business and geographic area of risks insured within our one operating segment. The historical comparative balances for the year ended December 31, 2009 presented above, have been

reclassified to conform to the current period presentation.

(2) The negative balance represents reversal of premiums due to termination of contracts or premiums returned upon commutation of contracts.

[Back to Table of Contents](#)

The following table sets forth our gross premiums written by the geographic area of the risk insured for the years ended December 31, 2011, 2010 and 2009:

	2011		2010		2009	
	(\$ in thousands)					
USA	\$ 353,999	89.0%	\$ 374,330	90.2%	\$ 233,058	90.0%
Worldwide (1)	22,595	5.7	32,549	7.8	24,015	9.3
Europe	20,765	5.2	7,671	1.9	—	—
Caribbean	300	0.1	300	0.1	1,745	0.7
	\$ 397,659	100.0%	\$ 414,850	100.0%	\$ 258,818	100.0%

(1) “Worldwide” is comprised of contracts that reinsure risks in more than one geographic area and do not specifically exclude the USA.

Additional information about our business is set forth in “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 15 to our consolidated financial statements included herein.

### Marketing and Distribution

A majority of our business is sourced through reinsurance brokers. Brokerage distribution channels provide us with access to an efficient, variable cost and global distribution system without the significant time and expense that would be incurred in creating a wholly-owned distribution network. We believe that our financial strength rating, unencumbered balance sheet and superior client service are essential for creating long-term relationships with clients and brokers.

We aim to build and strengthen long-term relationships with global reinsurance brokers. Our management team has significant relationships with most of the primary and specialty broker intermediaries in the reinsurance marketplace. We believe that by maintaining close relationships with brokers we will be able to continue to obtain access to a broad range of reinsurance clients and opportunities. We focus on the quality and financial strength of any brokerage firm with which we do business. Brokers do not have the authority to bind us to any reinsurance contract.

We have entered into a service agreement with a specialist service provider. Under the agreement, the specialist provides administration and support in developing and maintaining relationships, reviewing and recommending programs and managing risks on certain specialty lines of business. The service provider does not have any authority to bind the Company to any reinsurance contracts.

Reinsurance brokers receive a brokerage commission that is usually a percentage of gross premiums written. We seek to become the first choice of brokers and clients by providing:

- customized solutions that address the specific business needs of our clients;
- rapid and substantive responses to proposal and pricing quote requests;
- timely payment of claims;
- financial security; and
- clear indication of risks we will and will not underwrite.

The following table sets forth the premiums sourced from brokers who each accounted for more than 10% of our gross written premiums for the years ended December 31, 2011, 2010 and 2009.

	2011		2010		2009	
	(\$ in thousands)					
Largest broker	\$ 139,251	35.0%	\$ 122,558	29.6%	\$ 79,419	30.7%
2nd largest broker	107,641	27.1	117,842	28.4	62,346	24.1
3rd largest broker	50,985	12.8	87,818	21.2	60,043	23.2
4th largest broker	49,398	12.4	—	—	—	—
	\$ 347,275	87.3%	\$ 328,218	79.2%	\$ 201,808	78.0%

We believe that by maintaining close relationships with brokers, we are able to obtain access to a range of potential clients that meet our criteria. We meet frequently in the Cayman Islands and elsewhere with brokers and senior representatives of clients and prospective clients. All contract submissions are reviewed and approved in our executive offices in the Cayman Islands or Ireland. Due to our dependence on brokers, the inability to obtain business from them could adversely affect our business strategy. See “Risk Factors – The inability to obtain business provided from brokers could adversely affect our business strategy and results of operations”. In addition, we may assume a degree of credit risk of our reinsurance brokers. See “Risk Factors — The involvement of reinsurance brokers subjects us to their credit risk.”

We believe that diversity in our sources of business helps reduce any potential adverse effects arising out of the termination of any one of our business relationships.

[Back to Table of Contents](#)

## Underwriting and Risk Management

We have established a senior team of generalist underwriters and actuaries to operate our reinsurance business. We believe that our underwriters' experience, coupled with our approach to underwriting, allows us to deploy our capital in a variety of lines of business and to capitalize on opportunities that we believe offer favorable returns on equity over the long term. Our underwriters and actuaries have expertise in a number of lines of business and we also look to outside consultants on a fee-for-service basis to help us with niche areas of expertise when we deem it appropriate. We generally apply the following underwriting and risk management principles:

### Economics of Results

Our primary goal is to build a reinsurance portfolio that has attractive economic results. We may underwrite a reinsurance contract that may not demonstrate immediate short-term accounting benefits if we believe it will provide a favorable return on capital over the life of the contract. In pricing our products, we assume investment returns that approximate the risk-free rate, which we review and adjust, if necessary, on an annual basis.

### Actuarially Based Pricing

We have developed and use proprietary actuarial models and also use several commercially available tools to price our business. Our models not only consider conventional underwriting metrics, but also incorporate a component for risk aversion that places greater weight on scenarios that result in greater losses. The actuary working on the transaction must agree that the transaction is expected to meet or exceed our return on equity requirements before we commit capital. We price each transaction based on our view of the merits and structure of the transaction.

### Team Approach

Each transaction typically is assigned to an underwriter and an actuary to evaluate underwriting, structuring and pricing. Prior to committing capital to any transaction, the evaluation team creates a deal analysis memorandum that highlights the key components of the proposed transaction and presents the proposed transaction to a senior group of staff, including underwriting, actuarial and finance. This group is provided an opportunity to critically evaluate the proposed transaction. Additionally, our Chief Executive Officer or Chief Underwriting Officer must agree that the transaction meets our underwriting guidelines before we submit a firm proposal. Our Chief Executive Officer and Chief Underwriting Officer maintain the exclusive ultimate authority to bind contracts.

### Act as Lead Underwriter

Typically, one reinsurer acts as the lead underwriter in negotiating principal policy terms and pricing of reinsurance contracts. We aim to act as that lead underwriter for the majority of the aggregate premiums that we underwrite. We believe that lead underwriting is an important factor in achieving long-term success, as lead underwriters typically have greater influence in negotiating pricing, terms and conditions. In addition, we believe that reinsurers that lead policies are generally solicited for a broader range of business and have greater access to attractive opportunities.

### Alignment of Company and Client's Interests

We seek to ensure each contract we underwrite aligns our interests with our client's interests. Specifically, depending upon the opportunity we may seek to:

pay our clients a commission based upon a predetermined percentage of the profit we realize on the business, which we refer to as a profit commission;

provide that the client pays a predetermined amount of all losses before our reinsurance policy incurs a loss payment, which we refer to as self insured retentions;  
provide that the client pays a predetermined proportion of all losses above a predetermined amount, which we refer to as co-participation; and/or  
charge the client a premium for reinstatement of reinsurance coverage to the full amount, which we refer to as reinstatement premium, if coverage has been reduced as a result of a reinsurance loss payment.

We believe that through profit commissions, self-insured retentions, co-participation, reinstatement premiums or other terms within the contract, our clients are provided with an incentive to manage our interests. We believe that aligning our interests with our clients' interests promotes accurate reporting of information, timely settling and management of claims and limits the potential for disputes.

#### Integrated Underwriting Operations

We implement a “cradle to grave” service philosophy where the same individual underwrites and services each reinsurance contract. We believe this method enables us to best understand the risks and likelihood of loss for any particular contract and to provide superior client service.

[Back to Table of Contents](#)

### Detailed Contract Diligence

We are highly selective in the contracts we choose to underwrite and spend a significant amount of time with our clients and brokers to understand the risks and appropriately structure the contracts. We usually obtain significant amounts of data from our clients to conduct a thorough actuarial modeling analysis. As part of our pricing and underwriting process, we assess, among other factors:

- the client's and industry's historical loss data;
- the expected duration for claims to fully develop;
- the client's pricing and underwriting strategies;
- the geographic areas in which the client is doing business and its market share;
- the reputation and financial strength of the client;
- the reputation and expertise of the broker;
- the likelihood of establishing a long-term relationship with the client and the broker; and
- reports provided by independent industry specialists.

### Underwriting Authorities

We use actuarial models that we produce and apply our underwriting guidelines to analyze each reinsurance opportunity before we commit capital. The Underwriting Committee of our Board of Directors sets parameters for zonal and aggregate property catastrophic caps and limits for maximum loss potential under any individual contract. The Underwriting Committee must approve any exceptions to the established limits. Our approach to risk control imposes an absolute loss limit on our natural catastrophic exposures rather than an estimate of probable maximum losses and we have established zonal and aggregate limits. We manage all non-catastrophic exposures and other risks by analyzing our maximum loss potential on a contract-by-contract basis. The maximum underwriting authorities, as set by our Underwriting Committee, may be amended from time to time, including as and when our capital base changes.

### Retrocessional Coverage

We may from time to time purchase retrocessional coverage for one or more of the following reasons: to manage our overall exposure, to reduce our net liability on individual risks, to obtain additional underwriting capacity and to balance our underwriting portfolio. Additionally, retrocession can be used as a mechanism to share the risks and rewards of business written and therefore can be used as a tool to align our interests with those of our counterparties.

The amount of retrocessional coverage that we purchase varies based on numerous factors, some of which include the inherent riskiness of the portfolio of business we write and the level of our capital base. Given our opportunistic approach to underwriting, which may change the composition and inherent riskiness of our underwriting portfolio on an annual basis, it is not possible to predict the level of retrocessional coverage that we will purchase in any given year. To date, our retrocessional coverage has been primarily used as a tool to align our interests with those of our counterparties.

We intend to only purchase uncollateralized retrocessional coverage from a reinsurer with a minimum financial strength rating of "A- (Excellent)" from A.M. Best Company, Inc., or "A.M. Best", or an equivalent rating from a recognized rating service. For non-rated reinsurers, we monitor and obtain collateral in the form of cash, funds withheld, or letters of credit. As of December 31, 2011, the aggregate amount due from reinsurers from retrocessional coverages represents 12.3% (2010: 6.4%) of our gross outstanding loss reserves. As of December 31, 2011, all the reinsurers of our retrocessional coverage had either a financial strength rating from A.M. Best of "A- (Excellent)" or better, or we retained funds, letters of credit and other collateral in excess of the estimated losses recoverable.

### Capital Allocation

We allocate capital to each contract that we bind. Our capital allocation methodology uses the probability and magnitude of potential for economic loss. We allocate capital for the period from each contract's inception until the risk is resolved. We have developed a proprietary return on equity capital allocation model to evaluate and price each reinsurance contract that we underwrite. We use different return on equity thresholds depending on the type and risk characteristics of the business we underwrite.

### Claims Management

We implement a "cradle to grave" service philosophy where the same individual underwrites and services each reinsurance contract.

Our claims management process begins upon receipt of claims submissions from our clients, which the underwriter reviews for authorization prior to entry and settlement. We believe this ensures that we pay claims consistently with the terms and conditions of each contract. Depending on the size of the claim payment, additional approvals for payment must be obtained from our executive officers.

Where necessary, we conduct or contract for on-site audits, particularly for large accounts and for those whose performance differs from our expectations. Through these audits, we evaluate and monitor ceding companies' claims-handling practices, including the organization of their claims departments, their fact-finding and investigation techniques, their loss notifications, the adequacy of their reserves, their negotiation and settlement practices and their adherence to claims-handling guidelines.

We recognize that fair interpretation of our reinsurance agreements with our clients and timely payment of covered claims are valuable services to our clients.



[Back to Table of Contents](#)

## Reserves

Our reserving philosophy is to reserve to our best estimates of the actual results of the risks underwritten. Our actuaries and underwriters provide reserving estimates on a quarterly basis calculated to meet our estimated future obligations. We reserve on a transaction by transaction basis. We engage outside actuaries who review these estimates at least once a year. Due to the use of different assumptions, accounting treatment and loss experience, the amount we establish as reserves with respect to individual risks, transactions or classes of business may be greater or less than those established by clients or ceding companies. Reserves may also include unearned premiums, premium deposits, profit sharing earned but not yet paid, claims reported but not yet paid, claims incurred but not reported and claims in the process of settlement.

Reserves do not represent an exact calculation of liability. Rather, reserves represent our best estimate of the expected cost of the ultimate settlement and administration of the claim. Although the methods for establishing reserves are well-tested, some of the major assumptions about anticipated loss emergence patterns are subject to unanticipated fluctuation. We base these estimates on our assessment of facts and circumstances then known, as well as estimates of future trends in claim severity and frequency, judicial theories of liability and other factors, including the actions of third parties, which are beyond our control.

## Collateral Arrangements and Letter of Credit Facilities

We are licensed and admitted as an insurer only in the Cayman Islands and the European Economic Area. Many jurisdictions such as the United States do not permit clients to take credit for reinsurance on their statutory financial statements if such reinsurance is obtained from unlicensed or non-admitted insurers without appropriate collateral. As a result, we anticipate that all of our U.S. clients and a portion of our non-U.S. clients will require us to provide collateral for the contracts we bind with them. We expect this collateral to take the form of funds withheld, trust arrangements or letters of credit. As of December 31, 2011, we had letter of credit facilities with an aggregate amount of \$760.0 million (2010: \$560.0 million). As of December 31, 2011, we had issued letters of credit totaling \$382.8 million (2010: \$339.9 million) to clients. The failure to maintain, replace or increase our letter of credit facilities on commercially acceptable terms may significantly and negatively affect our ability to implement our business strategy. See “Risk Factors — Our failure to maintain sufficient letter of credit facilities or to increase our letter of credit capacity on commercially acceptable terms as we grow could significantly and negatively affect our ability to implement our business strategy.”

## Competition

The reinsurance industry is highly competitive. We compete with major reinsurers, most of which are well established, have significant operating histories and strong financial strength ratings, and have developed long-standing client relationships.

Our competitors include ACE Limited, Everest Re, General Re Corporation, Hannover Re Group, Munich Reinsurance Company, PartnerRe Ltd., Swiss Reinsurance Company and Transatlantic Reinsurance Company, which are dominant companies in our industry. Although we seek to provide coverage where capacity and alternatives are limited, we directly compete with these larger companies due to the breadth of their coverage across the property and casualty market in substantially all lines of business. We also compete with smaller companies and other niche reinsurers.

While we have a limited operating history compared to most of our competitors, we believe that our approach to underwriting allows us to be successful in underwriting transactions against more established competitors.

## Ratings

On September 26, 2011, A.M. Best upgraded the rating of Greenlight Re from “A- (Excellent)” to “A (Excellent)” with a stable outlook, and reaffirmed the “A- (Excellent)” rating for GRIL. An “A (Excellent)” rating from A.M. Best is the third highest of 15 ratings. We believe that a strong rating is an important factor in the marketing of reinsurance products to clients and brokers. This rating reflects the rating agency’s opinion of our financial strength, operating performance and ability to meet obligations. It is not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our Class A ordinary shares.

The failure to maintain a strong rating may significantly and negatively affect our ability to implement our business strategy. See “Risk Factors – A downgrade or withdrawal of our A.M. Best rating would significantly and negatively affect our ability to implement our business strategy successfully.”

## Regulations

### Cayman Islands Insurance Regulation

Greenlight Re holds an Unrestricted Class B insurance license issued in accordance with the terms of the Insurance Law (as amended) of the Cayman Islands, or the Law, and is subject to regulation by the Cayman Islands Monetary Authority, or CIMA, in terms of the Law.

As the holder of an Unrestricted Class B insurance license, Greenlight Re is permitted to undertake insurance business from the Cayman Islands, but, except with the prior written approval of CIMA, may not engage in any Cayman Islands domestic business unless such business forms a minor part of the international risk of a policyholder whose main activities are in territories outside the Cayman Islands.

[Back to Table of Contents](#)

Greenlight Re is required to comply with the following principal requirements under the Law:

the maintenance of a net worth (defined in the Law as the excess of assets, including any contingent or reserve fund secured to the satisfaction of CIMA, over liabilities other than liabilities to partners or shareholders) of at least 100,000 Cayman Islands dollars (which is equal to approximately US\$120,000), subject to increase by CIMA depending on the type of business undertaken;

to carry on its insurance business in accordance with the terms of the license application submitted to CIMA, to seek the prior approval of CIMA for any proposed change thereto, and annually to file a certificate of compliance with this requirement in the prescribed form signed by an independent auditor, or any other party approved by CIMA;

to prepare annual accounts in accordance with generally accepted accounting principles, audited by an independent auditor approved by CIMA;

to seek the prior approval of CIMA in respect of the appointment of directors and officers and to provide CIMA with information in connection therewith and notification of any changes thereto;

to notify CIMA as soon as reasonably practicable of any change of control of Greenlight Re, the acquisition by any person or group of persons of shares representing more than 10% of Greenlight Re's issued share capital or total voting rights;

to maintain appropriate business records in the Cayman Islands; and

to pay an annual license fee.

The Law requires that the holder of an Unrestricted Class B insurance license engage a licensed insurance manager operating in the Cayman Islands to provide insurance expertise and oversight, unless exempted by CIMA. Greenlight Re has been exempted from this requirement.

It is the duty of CIMA:

to maintain a general review of insurance practices in the Cayman Islands;

to examine the affairs or business of any licensee or other person carrying on, or who has carried on, insurance business in order to ensure that the Law has been complied with and that the licensee is in a sound financial position and is carrying on its business in a satisfactory manner;

to examine and report on the annual returns delivered to CIMA in terms of the Law; and

to examine and make recommendations with respect to, among other things, proposals for the revocation of licenses and cases of suspected insolvency of licensed entities.

Where CIMA believes that a licensee is committing, or is about to commit or pursue, an act that is an unsafe or unsound business practice, CIMA may request that the licensee cease or refrain from committing the act or pursuing the offending course of conduct. Failure to comply with CIMA regulation may be punishable by a fine of up to 100,000 Cayman Islands dollars (which is approximately US\$120,000), and an additional 10,000 Cayman Islands dollars (which is approximately US\$12,000) for every day after conviction that the breach continues.

Whenever CIMA believes that a licensee is or may become unable to meet its obligations as they fall due, is carrying on business in a manner likely to be detrimental to the public interest or to the interest of its creditors or policyholders, has contravened the terms of the Law or has otherwise behaved in such a manner so as to cause CIMA to call into question the licensee's fitness, CIMA may take one of a number of steps, including requiring the licensee to take steps to rectify the matter, suspending the license of the licensee, revoking the license, imposing conditions upon the license and amending or revoking any such condition, requiring the substitution of any director, manager or officer of the licensee, at the expense of the licensee, appointing a person to advise the licensee on the proper conduct of its affairs and to report to CIMA thereon, at the expense of the licensee, appointing a person to assume control of the licensee's affairs or otherwise requiring such action to be taken by the licensee as CIMA considers necessary. We have not been subject to any such actions from CIMA to date.

#### Other Regulations in the Cayman Islands

As Cayman Islands exempted companies, Greenlight Capital Re and Greenlight Re may not carry on business or trade locally in the Cayman Islands except in furtherance of their business outside the Cayman Islands, and are prohibited from soliciting the public of the Cayman Islands to subscribe for any of their securities or debt. We are further required to file a return with the Registrar of Companies in January of each year and to pay an annual registration fee at that time.

The Cayman Islands has no exchange controls restricting dealings in currencies or securities.

#### Ireland Insurance Regulations

Our Irish subsidiary, GRIL, is authorized as a non-life reinsurance undertaking in accordance with the provisions of the European Communities (Reinsurance) Regulations 2006 ("Irish Regulations"). GRIL is required to comply at all times with the Irish Regulations and with any future conditions imposed on it by the Central Bank of Ireland ("CBI"). In addition, GRIL is required to maintain statutory reserves, particularly in respect of underwriting liabilities and a solvency margin as provided for in the Irish Insurance Acts 1909 to 2000, regulations promulgated thereunder, regulations relating to insurance business promulgated under the European Communities Act 1972, the Irish Central Bank Acts 1942 to 2010 as amended, regulations promulgated thereunder and directions and guidelines and codes of conduct issued by CBI (the Insurance Acts and Regulations). Assets constituting statutory reserves must comply with admissibility, diversification, localization and currency matching rules. Statutory reserves must be actuarially certified annually.

[Back to Table of Contents](#)

Overview of Investments

Our investment portfolio is managed by DME Advisors, a value-oriented investment advisor that analyzes companies' available financial data, business strategies and prospects in an effort to identify undervalued and overvalued securities. DME Advisors is controlled by David Einhorn, the Chairman of our Board of Directors and the president of Greenlight Capital, Inc. We have entered into an agreement, or the "advisory agreement", wherein the Company, Greenlight Re, GRIL, and DME Advisors agreed to create a joint venture for the purposes of managing certain jointly held assets. The advisory agreement expires on December 31, 2013 and will renew automatically for successive three-year periods unless at least 90 days prior to the end of the then current term, DME Advisors notifies the other participants, of its desire to terminate the advisory agreement or any other participant notifies DME Advisors of its desire to withdraw from the advisory agreement.

Pursuant to the advisory agreement, DME Advisors has the exclusive right to manage our investments, subject to the investment guidelines adopted by our Board of Directors, for so long as the agreement is in effect. DME Advisors receives two forms of compensation:

a monthly payment based on an annual rate of 1.5% of the capital account balance of each participant; and

a performance allocation based on the positive performance change in such participant's capital account equal to 20% of net profits calculated per annum, subject to a loss carry forward provision.

The loss carry forward provision allows DME Advisors to earn a reduced performance allocation of 10% on profits in any year subsequent to the year in which a participant's (other than DME Advisors) capital account incurs a loss, until all the losses are recouped and an additional amount equal to 150% of the loss is earned. DME Advisors is not entitled to a performance allocation in a year in which the investment portfolio incurs a loss. However, DME Advisors is entitled to earn reduced incentive compensation on subsequent years to the extent it generates profits for our investment portfolio in such years.

DME Advisors is required to follow our investment guidelines and act in a manner that it considers fair and equitable in allocating investment opportunities to us, but we do not otherwise impose any specific obligations or requirements concerning the allocation of time, effort or investment opportunities to us or any restrictions on the nature or timing of investments for our account and for DME Advisors' own account or other accounts that DME Advisors or its affiliates may manage. In addition, DME Advisors can outsource to sub-advisors without our consent or approval. In the event that DME Advisors and any of its affiliates attempt to simultaneously invest in the same opportunity, the opportunity will be allocated pro rata as reasonably determined by DME Advisors and its affiliates. Affiliates of DME Advisors presently serve as general partner or investment advisor of Greenlight Capital, L.P., Greenlight Capital Qualified, L.P., Greenlight Capital Offshore, Ltd., Greenlight Capital Offshore Qualified, Ltd., Greenlight Capital Offshore Partners, Greenlight Capital (Gold), L.P., Greenlight Capital Offshore (Gold), Ltd., Greenlight Capital Offshore Masters (Gold), Ltd., Greenlight Masters, L.P., Greenlight Masters Qualified, L.P., Greenlight Masters Offshore, Ltd., Greenlight Masters Offshore I, Ltd., Greenlight Masters Offshore Partners and Greenlight Masters Partners, which we collectively refer to as the Greenlight Funds.

We have agreed to use commercially reasonable efforts to cause all of our current and future subsidiaries to enter into substantially similar advisory agreements, provided that any such agreement shall be terminable on the same date that the advisory agreement is terminable.

We have agreed to release DME Advisors and its affiliates from, and to indemnify and hold them harmless against, any liability arising out of the advisory agreement, subject to certain exceptions. Furthermore, DME Advisors and its affiliates have agreed to indemnify us against any liability incurred in connection with certain actions.

Greenlight Re or GRIL may also withdraw as a participant under the advisory agreement prior to the expiration of its term at any time only “for cause,” which the advisory agreement defines as:

a material violation of applicable law relating to DME Advisors’ advisory business;

DME Advisors' gross negligence, willful misconduct or reckless disregard of its obligations under the advisory agreement;

a material breach by DME Advisors of Greenlight Re’s or GRIL’s investment guidelines that is not cured within a 15-day period; or

a material breach by DME Advisors of its obligations to return and deliver assets as we may request.

In addition, GRIL may withdraw as a participant under the advisory agreement prior to the expiration of its term due to unsatisfactory long term performance of DME Advisors, as determined solely by the Board of Directors of GRIL on each anniversary date of the advisory agreement.

#### Investment Strategy

DME Advisors implements a value-oriented investment strategy by taking long positions in perceived undervalued securities and short positions in perceived overvalued securities. DME Advisors aims to achieve high absolute rates of return while minimizing the risk of capital loss. DME Advisors attempts to determine the risk/return characteristics of potential investments by analyzing factors such as the risk that expected cash flows will not be obtained, the volatility of the cash flows, the leverage of the underlying business and the security's liquidity, among others.

Our Board of Directors conducts reviews of our investment portfolio activities and oversees our investment guidelines to meet our investment objectives. We believe our investment approach, while less predictable than traditional fixed-income portfolios, complements our reinsurance business and will achieve higher rates of return over the long term than reinsurance companies that invest predominantly in fixed-income securities. Our investment guidelines are designed to maintain adequate liquidity to fund our reinsurance operations and to protect against unexpected events.

DME Advisors, which is contractually obligated to adhere to our investment guidelines, makes investment decisions on our behalf, which may include buying public or private corporate equities and current-pay debt instruments, selling securities short and investing in trade claims, debt instruments of distressed issuers, sovereign debt, arbitrages, bank loan participations, derivatives (including options, warrants, swaps and futures), commodities, currencies, leases, break-ups, consolidations, reorganizations and limited partnerships. As of December 31, 2011, DME Advisors was in compliance with our investment guidelines.



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Commodities	97,506	8.8	132,466	11.7
Private and unlisted equity securities	31,179	2.8	46,557	4.1
	1,030,146	93.4	1,034,554	91.5
Funds and cash held with brokers and swap counterparties	55,645	5.0	73,144	6.5
Financial contracts, net	17,349	1.6	22,675	2.0
Total long investments	\$ 1,103,140	100.0%	\$ 1,130,373	100.0%

The following table represents the fair value of our total short positions as reported in the consolidated financial statements as of December 31, 2011 and 2010:

	2011		2010	
	(\$ in thousands)			
Equities – listed	\$ 539,197	78.9%	\$ 675,464	93.0%
Exchange traded funds	—	—	48,709	6.7
Debt instruments	144,619	21.1	1,817	0.3
Total short investments	\$ 683,816	100.0%	\$ 725,990	100.0%

DME Advisors also reports the composition of our managed portfolio on a notional exposure basis, which it believes is the appropriate manner in which to assess the exposure and profile of investments and is the way in which it manages the portfolio. This exposure analysis does not include cash (U.S. dollar and foreign currencies), gold, credit default swaps, sovereign debt, foreign currency derivatives, interest rate options and other macro positions. In addition, under this methodology, the exposure for total return swaps is reported at full notional amount. The notional amount of a derivative contract is the underlying value upon which payment obligations are computed and that we believe best represents the risk exposure. For an equity total return swap, for example, the notional amount is the number of shares underlying the swap multiplied by the market price of those shares. Options are reported at their delta adjusted basis. The delta of an option is the sensitivity of the option price to the underlying stock (or commodity) price. The delta adjusted basis is the number of shares underlying the option multiplied by the delta and the underlying stock (or commodity) price.



[Back to Table of Contents](#)

The following table represents the composition of our investment portfolio based on the percentage of assets in our investment account managed by DME Advisors as of December 31, 2011 and 2010:

	2011		2010	
	Long %	Short %	Long %	Short %
Debt instruments	0.7%	(0.2)%	1.6%	(0.2)%
Equities & related derivatives	86.3	(51.9)	89.9	(72.4)
Private and unlisted equity securities	2.0	—	1.3	0.0
Total	89.0%	(52.1)%	92.8%	(72.6)%

As of December 31, 2011, our exposure to gold on a delta adjusted basis was 8.4% (2010: 12.5%).

The following table represents the composition of our investment portfolio, by industry sector, based on the percentage of assets in our investment account managed by DME Advisors as of December 31, 2011:

Sector	Long %	Short %	Net %
Basic Materials	6.4%	(5.3)%	1.1%
Consumer Cyclical	12.7	(9.2)	3.5
Consumer Non-Cyclical	2.2	(7.1)	(4.9)
Energy	3.9	(0.9)	3.0
Financial	11.2	(14.4)	(3.2)
Healthcare	6.0	—	6.0
Industrial	8.3	(5.1)	3.2
Technology	37.8	(10.1)	27.7
Utilities	0.5	—	0.5
Total	89.0%	(52.1)%	36.9%

The following table represents the composition of our investment portfolio, by the market capitalization of the underlying security, based on the percentage of assets in our investment account managed by DME Advisors as of December 31, 2011:

Capitalization	Long %	Short %	Net %
Large Cap Equity (≥\$5 billion)	61.1%	(28.6)%	32.5%
Mid Cap Equity (≥\$1 billion)	21.7	(22.7)	(1.0)
Small Cap Equity (<\$1 billion)	3.5	(0.7)	2.8
Debt Instruments	0.7	(0.1)	0.6
Other Investments	2.0	—	2.0
Total	89.0%	(52.1)%	36.9%

### Investment Returns

A summary of our consolidated net investment income (loss) for the years ended December 31, 2011, 2010 and 2009 is as follows:

	2011	2010	2009
	(\$ in thousands)		
Realized gains (losses) and change in unrealized gains and losses, net	\$ 57,088	\$ 134,280	\$ 232,410

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Interest, dividend and other income	17,528	18,969	17,038
Interest, dividend and other expenses	(30,837)	(22,939)	(16,886)
Investment advisor compensation	(20,661)	(26,304)	(32,701)
Net investment income	\$ 23,118	\$ 104,006	\$ 199,861

Our investment return is based on the total assets in our investment account, which includes the majority of our equity capital and collected premiums. Investment returns, net of all fees and expenses, by quarter and for each year since inception is as follows: (1)

Quarter	2011	2010	2009	2008	2007	2006	2005	2004
1st	(3.4)%	(1.9)%	4.6%	(0.9)%	(4.2)%	7.5%	2.2%	— %
2nd	(1.9)	2.6	13.9	4.5	6.8	2.9	5.4	—
3rd	0.1	3.6	4.3	(15.9)	(0.8)	6.2	3.0	1.3
4th	7.6	6.5	6.4	(5.3)	4.2	5.9	2.9	3.9
Full Year	2.1%	11.0%	32.1%	(17.6)%	5.9%	24.4%	14.2%	5.2%

(2)

(1) Investment returns are calculated monthly and compounded to calculate the quarterly and annual returns. Actual investment income may vary depending on cash flows into and out of the investment account. Past performance is not necessarily indicative of future results.

(2) Represents the return for the period from July 13, 2004 (date of incorporation) to December 31, 2004.

[Back to Table of Contents](#)

DME Advisors and its affiliates manage and expect to manage other client accounts besides ours, some of which have, or may have, objectives similar to ours. Because of the similarity or potential similarity of our investment portfolio to these others, and because, as a matter of ordinary course, DME Advisors and its affiliates provide their clients, including us, with results of their respective investment portfolios on the last day of each month, those other clients indirectly may have material non-public information regarding our investment portfolio. To address this issue, and to comply with Regulation FD, we present, prior to the start of trading on the first business day of each month, our largest disclosed long positions, and a summary of our consolidated net investment returns and from time to time certain other material information relating to our investment portfolio, on our website, [www.greenlightre.ky](http://www.greenlightre.ky). DME Advisors may choose not to disclose certain positions to its clients in order to protect its investment strategy. Therefore, we present on our website the largest positions held by us that are disclosed by DME Advisors or its affiliates to their other clients.

#### Internal Risk Management

We review our investment portfolio together with our reinsurance operations on a periodic basis. With the assistance of DME Advisors, we periodically analyze both our assets and liabilities including the numerous components of risk in our portfolio, such as concentration risk and liquidity risk.

#### Information Technology

Our information technology infrastructure is currently housed in our corporate offices in Grand Cayman, Cayman Islands. We have implemented backup procedures to ensure that data is backed up on a daily basis and can be quickly restored as needed.

We have a disaster recovery plan with respect to our information technology infrastructure that includes arrangements with an offshore data center in Jersey, Channel Islands. We can access our systems from this offshore facility in the event that our primary systems are unavailable due to a disaster or otherwise.

#### Employees

As of December 31, 2011, we had 21 full-time employees, 20 of whom were based in Grand Cayman and one based in Dublin, Ireland. We believe that our employee relations are good. None of our employees are subject to collective bargaining agreements, and we are not aware of any current efforts to implement such agreements.

#### Additional Information

Our website address is [www.greenlightre.ky](http://www.greenlightre.ky) and we make available, free of charge, on or through our website, links to our annual reports on Form 10-K, quarterly reports on Form 10-Q including XBRL instance documents, current reports on Form 8-K and other documents we file with or furnish to the Securities and Exchange Commission, or SEC, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. In order to comply with Regulation FD, our investment returns are posted on a monthly basis. Additionally, our Code of Business Conduct and Ethics is available on our website.

#### ITEM 1A. RISK FACTORS

Any of the following risk factors could materially affect our business, financial condition or results of operations. These risks and uncertainties are not the only ones we face, but represent the risks that we believe are material. However, there may be additional risks not presently known to us or that we currently deem immaterial that

may also impair our business financial position or results of operations.

#### Risks Relating to Our Business

Our results of operations will fluctuate from period to period and may not be indicative of our long-term prospects.

The performance of our reinsurance operations and our investment portfolio will fluctuate from period to period. Fluctuations will result from a variety of factors, including:

reinsurance contract pricing;

our assessment of the quality of available reinsurance opportunities;

the volume and mix of reinsurance products we underwrite;

loss experience on our reinsurance liabilities;

the performance of our investment portfolio; and

our ability to assess and integrate our risk management strategy properly.

In particular, we seek attractive opportunities to underwrite products and make investments to achieve favorable returns on equity over the long term. Our investment strategy to invest primarily in long and short positions in publicly-traded equity and corporate debt instruments is subject to market volatility and is likely to be more volatile than traditional fixed-income portfolios that are comprised primarily of investment grade bonds. In addition, our differentiated strategy and focus on long-term growth in book value will result in fluctuations in total premiums written from period to period as we concentrate on underwriting contracts that we believe will generate better long-term, rather than short-term, results. Accordingly, our short-term results of operations may not be indicative of our long-term prospects.

[Back to Table of Contents](#)

Established competitors with greater resources may make it difficult for us to effectively market our products or offer our products at a profit.

The reinsurance industry is highly competitive. We compete with major reinsurers, many of which have substantially greater financial, marketing and management resources than we do. Competition in the types of business that we underwrite is based on many factors, including:

premium charges;

ability to obtain terms and conditions appropriate with the risk being assumed and in accordance with our underwriting guidelines;

the general reputation and perceived financial strength of the reinsurer;

relationships with reinsurance brokers;

ratings assigned by independent rating agencies;

speed of claims payment and reputation; and

the experience and reputation of the members of our underwriting team in the particular lines of reinsurance we seek to underwrite.

Additionally, although the members of our underwriting team have general experience across many property and casualty lines, they may not have the requisite experience or expertise to compete for all transactions that fall within our strategy of offering customized frequency and severity contracts at times and in markets where capacity and alternatives may be limited.

Our competitors include ACE Ltd., Everest Re, General Re Corporation, Hannover Re Group, Munich Reinsurance Company, Partner Re Ltd., Swiss Reinsurance Company and Transatlantic Reinsurance Company, which are dominant companies in our industry. Although we seek to provide coverage where capacity and alternatives are limited, we directly compete with these larger companies due to the breadth of their coverage across the property and casualty market in substantially all lines of business. We also compete with smaller companies and other niche reinsurers.

Further, our ability to compete may be harmed if insurance industry participants consolidate. Consolidated entities may try to use their enhanced market power to negotiate price reductions for our products and services. If competitive pressures reduce our prices, we would expect to write less business. As the insurance industry consolidates, if at all, competition for customers may become more intense, and the importance of acquiring and properly servicing each customer may become greater. We could incur greater expenses relating to customer acquisition and retention, further reducing our operating margins. In addition, insurance companies that merge may be able to spread their risks across a consolidated, larger capital base so that they require less reinsurance. The number of companies offering retrocessional reinsurance may decline. Reinsurance intermediaries could also consolidate, potentially adversely impacting our ability to access business and distribute our products. We could also experience more robust competition from larger, better capitalized competitors. Any of the foregoing could significantly, and negatively, affect our business or our results of operation.

We cannot assure you that we will be able to compete successfully in the reinsurance market. Our failure to compete effectively could significantly and negatively affect our financial condition and results of operations and may increase

the likelihood that we may be deemed to be a passive foreign investment company or an investment company. See “Risks Relating to Insurance and Other Regulations — We are subject to the risk of possibly becoming an investment company under U.S. federal securities law.”

If our losses and loss adjustment expenses greatly exceed our loss reserves, our financial condition may be significantly and negatively affected.

Our results of operations and financial condition depend upon our ability to assess accurately the potential losses and loss adjustment expenses associated with the risks we reinsure. Reserves are estimates at a given time of claims an insurer ultimately expects to pay, based upon facts and circumstances then known, predictions of future events, estimates of future trends in claim severity and other variable factors. The inherent uncertainties of estimating loss reserves generally are greater for reinsurance companies as compared to primary insurers, primarily due to:

the lapse of time from the occurrence of an event to the reporting of the claim and the ultimate resolution or settlement of the claim;

the diversity of development patterns among different types of reinsurance treaties; and

the necessary reliance on the client for information regarding claims.

On the majority of premiums we underwrite, our estimation of reserves may be less reliable than the reserve estimations of a reinsurer with a greater volume of business and an established loss history. Actual losses and loss adjustment expenses paid may deviate substantially from the estimates of our loss reserves contained in our financial statements and could negatively affect our results of operations. If we determine our loss reserves to be inadequate, we will increase our loss reserves with a corresponding reduction in our net income and capital in the period in which we identify the deficiency, and such a reduction would also negatively affect our results of operations. If our losses and loss adjustment expenses greatly exceed our loss reserves, our financial condition may be significantly and negatively affected.

[Back to Table of Contents](#)

The effect of emerging claim and coverage issues on our business is uncertain.

As industry practices and legal, judicial and regulatory conditions change, unexpected issues related to claims and coverage may emerge. Various provisions of our contracts, such as limitations or exclusions from coverage or choice of forum, may be difficult to enforce in the manner we intend, due to, among other things, disputes relating to coverage and choice of legal forum. These issues may adversely affect our business by either extending coverage beyond the period that we intended or by increasing the number or size of claims. In some instances, these changes may not manifest themselves until many years after we have issued insurance or reinsurance contracts that are affected by these changes. As a result, we may not be able to ascertain the full extent of our liabilities under our insurance or reinsurance contracts for many years following the issuance of our contracts. The effects of unforeseen development or substantial government intervention could adversely impact our ability to adhere to our goals.

A downgrade or withdrawal of our A.M. Best rating would significantly and negatively affect our ability to implement our business strategy successfully.

Companies, insurers and reinsurance brokers use ratings from independent rating agencies as an important means of assessing the financial strength and quality of reinsurers. A.M. Best has currently assigned us a financial strength rating of “A (Excellent),” which is the third highest of 15 ratings that A.M. Best issues. This rating reflects the rating agency’s opinion of our financial strength, operating performance and ability to meet obligations. It is not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our Class A ordinary shares. A.M. Best periodically reviews our rating and may revise it downward or revoke it at its sole discretion based primarily on its analysis of our balance sheet strength, operating performance and business profile. Factors that may affect such an analysis include:

if we change our business practices from our organizational business plan in a manner that no longer supports our A.M. Best ratings;

if unfavorable financial or market trends impact us;

if our actual losses significantly exceed our loss reserves;

if we are unable to retain our senior management and other key personnel; or

if our investment portfolio incurs significant losses.

If A.M. Best downgrades or withdraws our rating, we could be severely limited or prevented from writing any new reinsurance contracts, which would significantly and negatively affect our ability to implement our business strategy.

Some of our reinsurance contracts provide the client with the right to terminate the agreement if our A.M. Best rating is downgraded below certain rating thresholds. We expect that similar provisions will also be included in some contracts in the future.

The property and casualty reinsurance market may be affected by cyclical trends.

We write reinsurance in the property and casualty markets. The property and casualty reinsurance industry is cyclical. Primary insurers’ underwriting results, prevailing general economic and market conditions, liability retention decisions of companies and primary insurers and reinsurance premium rates influence the demand for property and casualty reinsurance. Prevailing prices and available surplus to support assumed business influence reinsurance supply. Supply may fluctuate in response to changes in return on capital realized in the reinsurance industry, the frequency and

severity of losses and prevailing general economic and market conditions.

Continued increases in the supply of reinsurance may have consequences for the reinsurance industry generally and for us, including lower premium rates, increased expenses for customer acquisition and retention, less favorable policy terms and conditions and/or lower premium volume.

Unpredictable developments, including courts granting increasingly larger awards for certain damages, natural disasters (such as catastrophic hurricanes, windstorms, tornados, earthquakes, wildfires and floods), fluctuations in interest rates, changes in the investment environment that affect market prices of investments and inflationary pressures, affect the industry's profitability. The effects of cyclicalities could significantly and negatively affect our financial condition and results of operations.

The U.S. and global economic downturns could harm our business, our liquidity and financial condition and our stock price.

Weak economic conditions may adversely affect (among other aspects of our business) the demand for and claims made under our products, the ability of customers, counterparties and others to establish or maintain their relationships with us, our ability to access and efficiently use internal and external capital resources and our investment performance. Volatility in the U.S. and other securities markets may adversely affect our investment portfolio and our stock price.

A significant decrease in our capital or surplus could enable certain clients to terminate reinsurance agreements or to require additional collateral.

Certain of our assumed reinsurance contracts contain provisions that permit our clients to cancel the contract or require additional collateral in the event of a downgrade in our ratings below specified levels or a reduction of our capital or surplus below specified levels over the course of the agreement. Whether a client would exercise such cancellation rights would likely depend, among other things, on the reason the provision is triggered, the prevailing market conditions, the degree of unexpired coverage and the pricing and availability of replacement reinsurance coverage.

If any such provisions were to become exercisable, we cannot predict whether or how many of our clients would actually exercise such rights or the extent to which they would have a significant and negative effect on our financial condition, results of operations or future prospects but they could have a significant adverse effect on the operations of our Company.



[Back to Table of Contents](#)

If we lose or are unable to retain our senior management and other key personnel and are unable to attract qualified personnel, our ability to implement our business strategy could be delayed or hindered, which, in turn, could significantly and negatively affect our business.

Our future success depends to a significant extent on the efforts of our senior management and other key personnel to implement our business strategy. We believe there are only a limited number of available, qualified executives with substantial experience in our industry. We could face challenges attracting and retaining personnel in the Cayman Islands and/or in Dublin, Ireland. Accordingly, the loss of the services of one or more of the members of our senior management or other key personnel, or our inability to hire and retain other key personnel, could prevent us from continuing to implement our business strategy and, consequently, significantly and negatively affect our business.

We do not currently maintain key man life insurance with respect to any of our senior management, including our Chief Executive Officer, Chief Financial Officer, Chief Underwriting Officer or Chief Actuary. If any member of senior management dies or becomes incapacitated, or leaves the Company to pursue employment opportunities elsewhere, we would be solely responsible for locating an adequate replacement for such senior management and for bearing any related cost. To the extent that we are unable to locate an adequate replacement or are unable to do so within a reasonable period of time, our business may be significantly and negatively affected.

Our ability to implement our business strategy could be adversely affected by Cayman Islands employment restrictions.

Under Cayman Islands law, persons who are not Caymanian, do not possess Caymanian status, or are not otherwise entitled to reside and work in the Cayman Islands pursuant to provisions of the Immigration Law (2010 Revision) of the Cayman Islands, which we refer to as the Immigration Law, may not engage in any gainful occupation in the Cayman Islands without an appropriate governmental work permit. Such a work permit may be granted or extended on a continuous basis for a maximum period of seven years (unless the employee is deemed to be exempted from such requirement in accordance with the provisions of the Immigration Law, in which case such period may be extended to nine years and the employee is given the opportunity to apply for permanent residence) upon showing that, after proper public advertisement, no Caymanian or person of Caymanian status, or other person legally and ordinarily resident in the Cayman Islands who meets the minimum standards for the advertised position is available. The failure of these work permits to be granted or extended could prevent us from continuing to implement our business strategy.

Operational risks, including human or systems failures, are inherent in our business.

Operational risks and losses can result from, among other things, fraud, errors, failure to document transactions properly or to obtain proper internal authorization, failure to comply with regulatory requirements, information technology failures or external events.

We believe that our modeling, underwriting and information technology and application systems are critical to our business. Moreover, our information technology and application systems have been an important part of our underwriting process and our ability to compete successfully. We have also licensed certain systems and data from third parties. We cannot be certain that we will have access to these, or comparable, service providers, or that our information technology or application systems will continue to operate as intended. A major defect or failure in our internal controls or information technology and application systems could result in management distraction, harm our reputation or increase expenses. We believe appropriate controls and mitigation procedures are in place to prevent significant risk of defect in our internal controls, information technology and application systems, but internal controls provide only a reasonable, not absolute, assurance as to the absence of errors or irregularities and any ineffectiveness of such controls and procedures could have a material adverse effect on our business.

Our failure to maintain sufficient letter of credit facilities or to increase our letter of credit capacity on commercially acceptable terms as we grow could significantly and negatively affect our ability to implement our business strategy.

We are not licensed or admitted as a reinsurer in any jurisdiction other than the Cayman Islands and the European Economic Area. Certain jurisdictions, including the United States, do not permit insurance companies to take credit for reinsurance obtained from unlicensed or non-admitted insurers on their statutory financial statements unless appropriate security measures are implemented. Consequently, certain clients will require us to obtain a letter of credit or provide other collateral through funds withheld or trust arrangements. When we obtain a letter of credit facility, we are customarily required to provide collateral to the letter of credit provider in order to secure our obligations under the facility. Our ability to provide collateral, and the costs at which we provide collateral, are primarily dependent on the composition of our investment portfolio.

Typically, letters of credit are collateralized with fixed-income securities. Banks may be willing to accept our investment portfolio as collateral, but on terms that may be less favorable to us than reinsurance companies that invest solely or predominantly in fixed-income securities. The inability to renew, maintain or obtain letters of credit collateralized by our investment portfolio may significantly limit the amount of reinsurance we can write or require us to modify our investment strategy.

Our banks have accepted, with certain restrictions, our investment portfolio as collateral. In the event of a decline in the market value of our investment portfolio that results in a collateral shortfall, as defined in each letter of credit facility, we have the right, at our option, to reduce the outstanding obligations under the applicable letter of credit facility, to deposit additional collateral or to change the collateral composition in order to cure the shortfall. If the shortfall is not cured within the prescribed time period, an event of default will immediately occur. We will be prohibited from issuing additional letters of credit until any shortfall is cured.

Our access to funds under our existing credit facilities is dependent on the ability of the banks that are parties to the facilities to meet their funding commitments. Those banks may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time, and we might be forced to replace credit sources in a difficult market.

There has also been recent consolidation in the financial industry, which could lead to increased reliance on and exposure to particular institutions. If we cannot obtain adequate capital or sources of credit on favorable terms, or at all, our business, operating results and financial condition could be adversely affected. It is possible that, in the future, rating agencies may reduce our existing ratings. If one or more of our ratings were downgraded, we could incur higher borrowing costs and our ability to access the capital markets could be impacted. Our inability to obtain adequate capital could have a significant and negative effect on our business, financial condition and results of operations.

We may need additional letter of credit capacity as we grow, and if we are unable to renew, maintain or increase any of our letter of credit facilities or are unable to do so on commercially acceptable terms we may need to liquidate all or a portion of our investment portfolio and invest in a fixed-income portfolio or other forms of investment acceptable to our clients and banks as collateral, which could significantly and negatively affect our ability to implement our business strategy.

[Back to Table of Contents](#)

Our failure to comply with restrictive covenants contained in our current or future credit facilities could trigger prepayment obligations, which could adversely affect our business, financial condition and results of operations.

Each of our credit facilities requires us and/or certain of our subsidiaries to comply with certain covenants, including restrictions on our ability to place a lien or charge on pledged assets, issue debt and in certain circumstances on the payment of dividends. Our failure to comply with these or other covenants could result in an event of default under one or more credit facilities or any credit facility we may enter into in the future, which, if not cured or waived, could result in us being required to repay the amounts outstanding under these facilities prior to maturity. As a result, our business, financial condition and results of operations could be significantly and negatively affected.

The inability to obtain business provided from brokers could adversely affect our business strategy and results of operations.

Since we began underwriting operations in April 2006, substantially all of our business has been placed through brokered transactions, which involve a limited number of reinsurance brokers which exposes us to concentration risk. In 2011, we had four brokers that in aggregate accounted for approximately 87% of our gross premiums written. Because broker-produced business is concentrated with a small number of brokers, we are exposed to concentration risk. To lose or fail to expand all or a substantial portion of the brokered business provided through brokers, many of whom may not be familiar with our Cayman Islands jurisdiction, could significantly and negatively affect our business and results of operations.

We may need additional capital in the future in order to operate our business, and such capital may not be available to us or may not be available to us on favorable terms.

We may need to raise additional capital in the future through public or private equity or debt offerings or otherwise in order to:

fund liquidity needs caused by underwriting or investment losses;

replace capital lost in the event of significant reinsurance losses or adverse reserve developments or significant investment losses;

satisfy letters of credit or guarantee bond requirements that may be imposed by our clients or by regulators;

meet applicable statutory jurisdiction requirements;

meet rating agency capital requirements; or

respond to competitive pressures.

Additional capital may not be available on terms favorable to us, or at all. Further, any additional capital raised through the sale of equity could dilute existing ownership interest in our company and may cause the market price of our Class A ordinary shares to decline. Additional capital raised through the issuance of debt may result in creditors having rights, preferences and privileges senior or otherwise superior to those of our Class A ordinary shares.

Our property and property catastrophe reinsurance operations may make us vulnerable to losses from catastrophes and may cause our results of operations to vary significantly from period to period.

Certain of our reinsurance operations expose us to claims arising out of unpredictable catastrophic events, such as hurricanes, hailstorms, tornados, windstorms, severe winter weather, earthquakes, floods, fires, explosions, volcanic eruptions and other natural or man-made disasters. The incidence and severity of catastrophes are inherently unpredictable but the loss experience of property catastrophe reinsurers has been generally characterized as low frequency and high severity. Claims from catastrophic events could reduce our earnings and cause substantial volatility in our results of operations for any fiscal quarter or year and adversely affect our financial condition. Corresponding reductions in our surplus levels could impact our ability to write new reinsurance policies.

Catastrophic losses are a function of the insured exposure in the affected area and the severity of the event. Because accounting regulations do not permit reinsurers to reserve for catastrophic events until they occur, claims from catastrophic events could cause substantial volatility in our financial results for any fiscal quarter or year and could significantly and negatively affect our financial condition and results of operations.

We depend on our clients' evaluations of the risks associated with their insurance underwriting, which may subject us to reinsurance losses.

In some of our proportional reinsurance business, in which we assume an agreed percentage of each underlying insurance contract being reinsured, or quota share contracts, we do not expect to separately evaluate each of the original individual risks assumed under these reinsurance contracts. Therefore, we will be largely dependent on the original underwriting decisions made by ceding companies. We will be subject to the risk that the clients may not have adequately evaluated the insured risks and that the premiums ceded may not adequately compensate us for the risks we assume. We also do not expect to separately evaluate each of the individual claims made on the underlying insurance contracts under quota share contracts. Therefore, we will be dependent on the original claims decisions made by our clients.

We could face unanticipated losses from political instability which could have a material adverse effect on our financial condition and results of operations.

We could be exposed to unexpected losses on our reinsurance contracts resulting from political instability and other politically driven events globally. These risks are inherently unpredictable and recent events may indicate an increased frequency and severity of losses. It is difficult to predict the timing of these events or to estimate the amount of loss that any given occurrence will generate. To the extent that losses from these risks occur, our financial condition and results of operations could be significantly and negatively affected.

[Back to Table of Contents](#)

Changing climate conditions may adversely affect our financial condition, profitability or cash flows.

Climate change, to the extent it produces extreme changes in temperatures and changes in weather patterns, could impact the frequency or severity of weather events and wildfires. Further, it could impact the affordability and availability of homeowners insurance, which could have an impact on pricing. Changes in weather patterns could also affect the frequency and severity of other natural catastrophe events to which we may be exposed.

The involvement of reinsurance brokers subjects us to their credit risk.

In accordance with industry practice, we frequently pay amounts owed on claims under our policies to reinsurance brokers, and these brokers, in turn, remit these amounts to the ceding companies that have reinsured a portion of their liabilities with us. In some jurisdictions, if a broker fails to make such a payment, we might remain liable to the client for the deficiency notwithstanding the broker's obligation to make such payment. Conversely, in certain jurisdictions, when the client pays premiums for policies to reinsurance brokers for payment to us, these premiums are considered to have been paid and the client will no longer be liable to us for these premiums, whether or not we have actually received them. Consequently, we assume a degree of credit risk associated with brokers around the world.

We may be unable to purchase reinsurance for the liabilities we reinsure, and if we successfully purchase such reinsurance, we may be unable to collect, which could adversely affect our business, financial condition and results of operations.

We purchase reinsurance for certain liabilities we reinsure, which we refer to as retrocessional coverage, in order to mitigate the effect of a potential concentration of losses upon our financial condition. The insolvency or inability or refusal of a retrocessionaire to make payments under the terms of its agreement with us could have an adverse effect on us because we remain liable to our client. From time to time, market conditions have limited, and in some cases have prevented, reinsurers from obtaining the types and amounts of retrocessional coverage that they consider adequate for their business needs. Accordingly, we may not be able to obtain our desired amounts of retrocessional coverage or negotiate terms that we deem appropriate or acceptable or obtain retrocessional coverage from entities with satisfactory creditworthiness. Our failure to establish adequate retrocessional arrangements or the failure of our retrocessional arrangements to protect us from overly concentrated risk exposure could significantly and negatively affect our business, financial condition and results of operations.

Currency fluctuations could result in exchange rate losses and negatively impact our business.

Our functional currency is the U.S. dollar. However, we expect that we will write a portion of our business and receive premiums and pay claims in currencies other than the U.S. dollar. We may incur foreign currency exchange gains or losses as we ultimately receive premiums and settle claims in foreign currencies. In addition, DME Advisors may invest a portion of our portfolio in securities or cash denominated in currencies other than the U.S. dollar. Consequently, we may experience exchange rate losses to the extent our foreign currency exposure is not hedged or is not sufficiently hedged, which could significantly and negatively affect our business. If we do seek to hedge our foreign currency exposure through the use of forward foreign currency exchange contracts or currency swaps, we will be subject to the risk that our counterparties to the arrangements fail to perform.

There are differences under Cayman Islands corporate law and Delaware corporate law with respect to interested party transactions which may benefit certain of our shareholders at the expense of other shareholders.

Under Cayman Islands corporate law, a director may vote on a contract or transaction where the director has an interest as a shareholder, director, officer or employee provided such interest is disclosed. None of our contracts will be deemed to be void because any director is an interested party in such transaction and interested parties will not be

held liable for monies owed to the Company.

Under Delaware law, interested party transactions are voidable.

#### Risks Relating to Insurance and Other Regulations

Any suspension or revocation of our reinsurance license would materially impact our ability to do business and implement our business strategy.

We are presently licensed as a reinsurer only in the Cayman Islands and the European Economic Area. The suspension or revocation of our licenses to do business as a reinsurance company in either of these jurisdictions for any reason would mean that we would not be able to enter into any new reinsurance contracts until the suspension ended or we became licensed in another jurisdiction. Any such suspension or revocation of our license would negatively impact our reputation in the reinsurance marketplace and could have a material adverse effect on our results of operations.

CIMA may take a number of actions, including suspending or revoking a reinsurance license whenever CIMA believes that a licensee is or may become unable to meet its obligations, is carrying on business in a manner likely to be detrimental to the public interest or to the interest of its creditors or policyholders, has contravened the terms of the Law or has otherwise behaved in such a manner so as to cause CIMA to call into question the licensee's fitness.

[Back to Table of Contents](#)

Further CIMA may revoke our license if:

we cease to carry on reinsurance business;

the direction and management of our reinsurance business has not been conducted in a fit and proper manner;

a person holding a position as a director, manager or officer is not a fit and proper person to hold the respective position; or

we become bankrupt or go into liquidation or we are wound up or otherwise dissolved.

Similarly, if CIMA suspended or revoked our license, we could lose our exemption under the Investment Company Act (See "— We are subject to the risk of possibly becoming an investment company under U.S. federal securities law.")

Our reinsurance subsidiaries are subject to minimum capital and surplus requirements, and our failure to meet these requirements could subject us to regulatory action.

Greenlight Re, our Cayman Islands subsidiary, is currently required to maintain a minimum net worth (as defined under the Law) of at least 100,000 Cayman Islands dollars (which is equal to approximately US\$120,000). During 2010, the Law was amended, which is expected to become effective during 2012, and may impose additional minimum capital and solvency requirements (as may be promulgated under future reinsurance regulations) including risk based capital requirements.

GRIL, our Irish subsidiary, is required to maintain statutory reserves, particularly in respect of underwriting liabilities and a solvency margin as provided for in the Irish Insurance Acts 1909 to 2000, regulations promulgated thereunder, regulations relating to insurance business promulgated under the European Communities Act 1972, the Irish Central Bank Acts 1942 to 2010 as amended, regulations promulgated thereunder and directions and guidelines and codes of conduct, issued by CBI (the Insurance Acts and Regulations). Assets constituting statutory reserves must comply with admissibility, diversification, localization and currency matching rules. Statutory reserves must be actuarially certified annually.

Any failure to meet applicable requirements or minimum statutory capital requirements could subject us to further examination or corrective action by regulators, including limitations on our writing of additional business or engaging in finance activities, supervision or liquidation. Further, any changes in existing risk based capital requirements or minimum statutory capital requirements may require us to increase our statutory capital levels, which we might be unable to do.

We are a holding company that depends on the ability of our subsidiaries to pay dividends.

We are a holding company and do not have any significant operations or assets other than our ownership of the shares of our subsidiaries. Dividends and other permitted distributions from our subsidiaries are our primary source of funds to meet ongoing cash requirements, including future debt service payments, if any, and other expenses, and to pay dividends to our shareholders if we choose to do so. Some of our subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. The inability of our subsidiaries to pay dividends in an amount sufficient to enable us to meet our cash requirements at the holding company level could have an adverse effect on our operations and our ability to pay dividends to our shareholders if we choose to do so and/or meet our debt service obligations, if any.

To the extent any of our subsidiaries located in jurisdictions other than the Cayman Islands consider declaring dividends, such subsidiaries are required to comply with restrictions set forth under applicable law and regulations in such other jurisdictions. These restrictions could adversely impact the Company.

We are subject to the risk of possibly becoming an investment company under U.S. federal securities law.

In the United States, the Investment Company Act regulates certain companies that invest in or trade securities. We rely on an exemption under the Investment Company Act for an entity organized and regulated as a foreign insurance company which is engaged primarily and predominantly in the reinsurance of risks on insurance agreements. The law in this area is subjective and there is a lack of guidance as to the meaning of “primarily and predominantly” under the relevant exemption to the Investment Company Act. For example, there is no standard for the amount of premiums that need to be written relative to the level of an entity’s capital in order to qualify for the exemption. If this exemption were deemed inapplicable, we would have to register under the Investment Company Act as an investment company. Registered investment companies are subject to extensive, restrictive and potentially adverse regulation relating to, among other things, operating methods, management, capital structure, leverage, dividends and transactions with affiliates. Registered investment companies are not permitted to operate their business in the manner in which we operate our business, nor are registered investment companies permitted to have many of the relationships that we have with our affiliated companies. Accordingly, we likely would not be permitted to engage DME Advisors as our investment advisor, unless we obtained board and shareholder approvals under the Investment Company Act. If DME Advisors were not our investment advisor, DME Advisors would liquidate our investment portfolio and we would seek to identify and retain another investment advisor with a value-oriented investment philosophy. If we could not identify or retain such an advisor, we would be required to make substantial modifications to our investment strategy. Any such changes to our investment strategy could significantly and negatively impact our investment results, financial condition and our ability to implement our business strategy.

If at any time it were established that we had been operating as an investment company in violation of the registration requirements of the Investment Company Act, there would be a risk, among other material adverse consequences, that we could become subject to monetary penalties or injunctive relief, or both, or that we would be unable to enforce contracts with third parties or that third parties could seek to obtain rescission of transactions with us undertaken during the period in which it was established that we were an unregistered investment company.

To the extent that the laws and regulations change in the future so that contracts we write are deemed not to be reinsurance contracts, we will be at greater risk of not qualifying for the Investment Company Act exception. Additionally, it is possible that our classification as an investment company would result in the suspension or revocation of our reinsurance license.



[Back to Table of Contents](#)

Insurance regulations to which we are, or may become, subject, and potential changes thereto, could have a significant and negative effect on our business.

We currently are admitted to do business in the Cayman Islands and the European Economic Area. Our operations in each of these jurisdictions are subject to varying degrees of regulation and supervision. The laws and regulations of the jurisdictions in which our subsidiaries are domiciled require that, among other things, these subsidiaries maintain minimum levels of statutory capital, surplus and liquidity, meet solvency standards, submit to periodic examinations of their financial condition and restrict payments of dividends and reductions of capital. Statutes, regulations and policies that our subsidiaries are subject to may also restrict the ability of these subsidiaries to write insurance and reinsurance policies, make certain investments and distribute funds.

More specifically with respect to our Irish subsidiary, European legislation known as “Solvency II”, which will govern the prudential regulation of insurers and reinsurers, is due to come into force on January 1, 2013. Solvency II will require insurers and reinsurers in Europe to meet risk-based solvency requirements. It will also impose group solvency and governance requirements on groups with insurers and/or reinsurers operating in the European Economic Area.

Although we do not presently expect that we will be admitted to do business in any other jurisdiction other than the Cayman Islands and the European Economic Area, we cannot assure you that insurance regulators in the United States or elsewhere will not review our activities and claim that we are subject to such jurisdiction’s licensing requirements. In addition, we are subject to indirect regulatory requirements imposed by jurisdictions that may limit our ability to provide reinsurance. For example, our ability to write reinsurance may be subject, in certain cases, to arrangements satisfactory to applicable regulatory bodies, and proposed legislation and regulations may have the effect of imposing additional requirements upon, or restricting the market for, non-U.S. reinsurers such as Greenlight Re and GRIL, with whom domestic companies may place business. We do not know of any such proposed legislation pending at this time.

We may not be able to comply fully with, or obtain desired exemptions from, revised statutes, regulations and policies that currently, or may in the future, govern the conduct of our business. Failure to comply with, or to obtain desired authorizations and/or exemptions under, any applicable laws could result in restrictions on our ability to do business or undertake activities that are regulated in one or more of the jurisdictions in which we operate and could subject us to fines and other sanctions. In addition, changes in the laws or regulations to which our subsidiaries are subject or may become subject, or in the interpretations thereof by enforcement or regulatory agencies, could have a material adverse effect on our business.

Complex and changing U.S. government regulations could impact our business and results of operations.

In July 2010, the U.S. government passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, one of the most sweeping financial reforms in decades. The legislation is expected to affect virtually every segment of the financial services industry, including the insurance and reinsurance industry in the United States.

Among other things, the Dodd-Frank Act created the Federal Insurance Office to be located within the U.S. Treasury department, with the authority to monitor all aspects of the insurance industry (except health insurance), and changes the regulatory framework for non-admitted insurance and reinsurance. We intend to monitor the impact of the Dodd-Frank Act on our business, but it is currently too early to predict with any certainty the magnitude of any impact, and whether the Dodd-Frank Act will positively or negatively affect our business.

Risks Relating to Our Investment Strategy and Our Investment Advisor

We have limited control as to how our investment portfolio is allocated and its performance depends on the ability of DME Advisors to select and manage appropriate investments.

DME Advisors acts as our exclusive investment advisor for our investment portfolio and recommends appropriate investment opportunities. Although DME Advisors is contractually obligated to follow our investment guidelines, we cannot assure shareholders as to how assets will be allocated to different investment opportunities, including long and short positions and derivatives trading, which could increase the level of risk to which our investment portfolio will be exposed. In addition, DME Advisors can outsource to sub-advisors without our consent or approval.

The performance of our investment portfolio depends to a great extent on the ability of DME Advisors to select and manage appropriate investments. Our advisory agreement with DME Advisors terminates on December 31, 2013, unless extended, and we have limited ability to terminate the advisory agreement earlier. We cannot assure you that DME Advisors will be successful in meeting our investment objectives or that the advisory agreement with DME Advisors will be renewed. The failure of DME Advisors to perform adequately could significantly and negatively affect our business, results of operations and financial condition.

We depend upon DME Advisors to implement our investment strategy.

We depend upon DME Advisors to implement our investment strategy. Accordingly, the diminution or loss of the services of DME Advisors could significantly affect our business. DME Advisors, in turn, is dependent on the talents, efforts and leadership of DME Advisors' principals. The diminution or loss of the services of DME Advisors' principals, or diminution or loss of their reputation and integrity or any negative market or industry perception arising from that diminution or loss, could have a material adverse effect on our business. In addition, the loss of DME Advisors' key personnel, or DME Advisors' inability to hire and retain other key personnel, over which we have no control, could delay or prevent DME Advisors from fully implementing our investment strategy on our behalf, and consequently, could significantly and negatively affect our business.

Our advisory agreement with DME Advisors does not allow us to terminate the agreement in the event that DME Advisors loses any or all of its principals or key personnel. The advisory agreement requires that we utilize the advisory services of DME Advisors exclusively until December 31, 2013 subject to limited termination provisions. See “— The advisory agreement has limited termination provisions.”

[Back to Table of Contents](#)

Our investment performance may suffer as a result of adverse capital market developments or other factors that impact our liquidity, which could in turn adversely affect our financial condition and results of operations.

We may derive a significant portion of our income from our investment portfolio. As a result, our operating results depend in part on the performance of our investment portfolio. We strive to structure our investments in a manner that recognizes our liquidity needs for future liabilities. We cannot assure you that DME Advisors will successfully structure our investments in relation to our anticipated liabilities. Failure to do so could force us to liquidate investments at a significant loss or at prices that are not optimal, which could significantly and adversely affect our financial results.

The risks associated with DME Advisors' value-oriented investment strategy may be substantially greater than the risks associated with traditional fixed-income investment strategies. In addition, making long equity investments in an up or rising market may increase the risk of not generating profits on these investments and we may incur losses if the market declines. Similarly, making short equity investments in a down or falling market may increase the risk of not generating profits on these investments and we may incur losses if the market rises. The market price of the Class A ordinary shares may be volatile and the risk of loss may be greater when compared with other reinsurance companies. The success of our investment strategy may also be affected by general economic conditions. Unexpected market volatility and illiquidity associated with our investments could significantly and negatively affect our investment portfolio results.

Potential conflicts of interest with DME Advisors may exist that could adversely affect us.

None of DME Advisors or its principals, including David Einhorn, Chairman of our Board of Directors, and the President of Greenlight Capital, Inc., are obligated to devote any specific amount of time to the affairs of our Company. Affiliates of DME Advisors, including Greenlight Capital, Inc., manage and expect to continue to manage other client accounts, some of which have objectives similar to ours, including collective investment vehicles managed by DME Advisors' affiliates and in which DME Advisors or its affiliates may have an equity interest. Pursuant to our advisory agreement with DME Advisors, DME Advisors has the exclusive right to manage our investment portfolio and is required to follow our investment guidelines and act in a manner that is fair and equitable in allocating investment opportunities to us, but the agreement does not otherwise impose any specific obligations or requirements concerning allocation of time, effort or investment opportunities to us or any restriction on the nature or timing of investments for our account and for DME Advisors' own account or other accounts that DME Advisors or its affiliates may manage. If we compete for any investment opportunity with another entity that DME Advisors or its affiliates manage, DME Advisors is not required to afford us any exclusivity or priority. DME Advisors' interest and the interests of its affiliates, including Greenlight Capital, Inc., may at times conflict, possibly to DME Advisors' detriment, which may potentially adversely affect our investment opportunities and returns.

Although Mr. Einhorn, Chairman of our Board of Directors, recused himself from the vote approving and adopting our investment guidelines, he is not, under Cayman Islands law, legally restricted from participating in making decisions with respect to our investment guidelines. Accordingly, his involvement as a member of our Board of Directors may lead to a conflict of interest.

DME Advisors and its affiliates may also manage accounts whose advisory fee schedules, investment objectives and policies differ from ours, which may cause DME Advisors and its affiliates to effect trading in one account that may have an adverse effect on another account, including ours. We are not entitled to inspect the trading records of DME Advisors, or its principals, that are not related to our Company.

Our investment portfolio may be concentrated in a few large positions which could result in large losses.

Our investment guidelines provide that DME Advisors may commit up to 20% of Greenlight Re's assets under management (10% for GRIL) to any one investment. In addition, GRIL's investment guidelines require that the 10 largest investments shall not constitute more than 50% of the total investment portfolio and the investment portfolio shall at all times be comprised of a minimum of 50 debt or equity securities of publicly traded companies.

Accordingly, from time to time we may hold a few, relatively large security positions in relation to our capital. As of December 31, 2011, we were invested in approximately 81 equity and debt securities and the largest five long and short positions comprised an aggregate of 28% and 16%, respectively, of our investment portfolio. Since our investment portfolio may not be widely diversified, it may be subject to more rapid changes in value than would be the case if the investment portfolio were required to maintain a wide diversification among companies, securities and types of securities.

We are exposed to credit risk primarily from the possibility that counterparties may default on their obligations to us.

We are exposed to credit risk primarily from the possibility that counterparties may default on their obligations to us. The amount of the maximum exposure to credit risk is indicated by the carrying value of our financial assets. In addition, we hold the securities of our investment portfolio with several prime brokers and have credit risk from the possibility that one or more of them may default on their obligations to us. Other than our investment in derivative contracts and corporate debt, if any, and the fact that our investments are held by prime brokers and custodians on our behalf, we have no other significant concentrations of credit risk.

Issuers or borrowers whose securities or debt we hold, customers, reinsurers, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors may default on their obligations to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Such defaults could have a significant and negative effect on our results of operations, financial condition and cash flows. Additionally, the underlying assets supporting our financial contracts may deteriorate causing these securities to incur losses.

DME Advisors may trade on margin and use other forms of financial leverage, which could potentially adversely affect our revenues.

Our investment guidelines provide DME Advisors with the ability to trade on margin and use other forms of financial leverage. Fluctuations in the market value of our investment portfolio could have a disproportionately large effect in relation to our capital. Any event which may adversely affect the value of positions we hold could significantly and negatively affect the net asset value of our investment portfolio and thus our results of operations.

[Back to Table of Contents](#)

DME Advisors may effectuate short sales that subject us to unlimited loss potential.

DME Advisors may enter into transactions in which it sells a security it does not own, which we refer to as a short sale, in anticipation of a decline in the market value of the security. Short sales for our account theoretically will involve unlimited loss potential since the market price of securities sold short may continuously increase. Under adverse market conditions, DME Advisors might have difficulty purchasing securities to meet short sale delivery obligations and may have to cover short sales at suboptimal prices.

DME Advisors may transact in derivative instruments, which may increase the risk of our investment portfolio.

Derivative instruments, or derivatives, include futures, options, swaps, structured securities and other instruments and contracts that derive their value from one or more underlying securities, financial benchmarks, currencies, commodities or indices. There are a number of risks associated with derivatives trading. Because many derivatives are leveraged, and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement may result in the loss of a substantial portion of or the entire investment, and may potentially expose us to a loss exceeding the original amount invested. Derivatives may also expose us to liquidity and counterparty risk. There may not be a liquid market within which to close or dispose of outstanding derivatives contracts. In the event of the counterparty's default, we will generally only rank as an unsecured creditor and risk the loss of all or a portion of the amounts we are contractually entitled to receive.

The compensation arrangements of DME Advisors may create an incentive to effect transactions that are risky or speculative.

Pursuant to the advisory agreement with DME Advisors, we are obligated to pay DME Advisors:

a 1.5% annual management fee, regardless of the performance of our investment account, payable monthly based on net assets of our investment account, excluding assets, if any, held in Regulation 114 Trusts; and

a performance allocation based on the positive performance change in the investment account equal to 20% of net profits calculated per annum, subject to a loss carry forward provision.

The loss carry forward provision allows DME Advisors to earn reduced incentive compensation of 10% of profits in any year subsequent to the year in which our investment account managed by DME Advisors incurs a loss, until all losses are recouped and an additional amount equal to 150% of the loss is earned.

While the performance compensation arrangement provides that losses will be carried forward as an offset against net profits in subsequent periods, DME Advisors generally will not otherwise be penalized for realized losses or decreases in the value of our portfolio. These performance compensation arrangements may create an incentive for DME Advisors to engage in transactions that focus on the potential for short-term gains rather than long-term growth or that are particularly risky or speculative.

DME Advisors' representatives' service on boards and committees may place trading restrictions on our investments and may subject us to indemnification liability.

DME Advisors may from time to time place its or its affiliates' representatives on creditors' committees and/or boards of certain companies in which we have invested. While such representation may enable DME Advisors to enhance the sale value of our investments, it may also place trading restrictions on our investments and may subject us to indemnification liability. The advisory agreement provides for the indemnification of DME Advisors or any other

person designated by DME Advisors for claims arising from such board representation.

As of December 31, 2011, representatives of DME Advisors sat on the board of directors of each of BioFuel Energy Corp, and Einstein Noah Restaurant Group, both of whose securities are publicly traded, as well as Ark Real Estate Partners LP, a privately-held company. As of December 31, 2011, our portfolio included investments in each of these companies.

The ability to use “soft dollars” may provide DME Advisors with an incentive to select certain brokers that may take into account benefits to be received by DME Advisors.

DME Advisors is entitled to use so-called “soft dollars” generated by commissions paid in connection with transactions for our investment portfolio to pay for certain of DME Advisors' operating and overhead costs, including the payment of all or a portion of its costs and expenses of operation. “Soft dollars” are a means of paying brokerage firms for their services through commission revenue, rather than through direct payments. DME Advisors' right to use soft dollars may give DME Advisors an incentive to select brokers or dealers for our transactions, or to negotiate commission rates or other execution terms, in a manner that takes into account the soft dollar benefits received by DME Advisors rather than giving exclusive consideration to the interests of our investment portfolio and, accordingly, may create a conflict.

[Back to Table of Contents](#)

The advisory agreement has limited termination provisions.

The advisory agreement has limited termination provisions which restrict our ability to manage our investment portfolio outside of DME Advisors. Because the advisory agreement contains exclusivity and limited termination provisions, we are unable to use investment managers other than DME Advisors for so long as the agreement is in effect. The current advisory agreement term ends on December 31, 2013 and will automatically renew for successive three-year terms unless at least 90 days prior to the end of the then current term, DME Advisors notifies us of its desire to terminate the advisory agreement, or Greenlight Re or GRIL notifies DME Advisors of their desire to withdraw from the advisory agreement. Greenlight Re or GRIL may also withdraw as participants under the advisory agreement prior to the expiration of the advisory agreement's term at any time only "for cause", which is defined as:

a material violation of applicable law relating to DME Advisors' advisory business;

DME Advisors' gross negligence, willful misconduct or reckless disregard of its obligations under the advisory agreement;

a material breach by DME Advisors of Greenlight Re's or GRIL's investment guidelines that is not cured within a 15-day period; or

a material breach by DME Advisors' of its obligations to return and deliver assets as we may request.

In addition, GRIL may withdraw as a participant under the advisory agreement prior to the expiration of its term due to unsatisfactory long term performance of DME Advisors, as determined solely by the Board of Directors of GRIL on each anniversary date of the advisory agreement.

Greenlight Re may not withdraw or terminate the advisory agreement on the basis of performance. If Greenlight Re becomes dissatisfied with the results of the investment performance of DME Advisors, we will be unable to hire new investment managers until the advisory agreement expires by its terms or is terminated for cause.

Certain of our investments may have limited liquidity and lack valuation data, which could create a conflict of interest.

Our investment guidelines provide DME Advisors with the flexibility to invest in certain securities with limited liquidity or no public market. This lack of liquidity may adversely affect the ability of DME Advisors to execute trade orders at desired prices and may impact our ability to fulfill our payment obligations. To the extent that DME Advisors invests in securities or instruments for which market quotations are not readily available, under the terms of the advisory agreement the valuation of such securities and instruments for purposes of compensation to DME Advisors will be determined by DME Advisors, whose determination, subject to audit verification, will be conclusive and binding in the absence of bad faith or manifest error. Because the advisory agreement gives DME Advisors the power to determine the value of securities with no readily discernible market value, and because the calculation of DME Advisors' fee is based on the value of the investment account, a conflict may exist or arise.

Increased regulation or scrutiny of alternative investment advisors may affect DME Advisors' ability to manage our investment portfolio or affect our business reputation.

The regulatory environment for investment managers is evolving, and changes in the regulation of managers may adversely affect the ability of DME Advisors to obtain the leverage it might otherwise obtain or to pursue its trading strategies. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to

take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. Any future regulatory change could have a significant negative impact on our financial condition and results of operations.

Short sale transactions have been subject to increased regulatory scrutiny, including the imposition of restrictions on short selling certain securities and reporting requirements. Our ability to execute a short selling strategy may be materially and adversely impacted by temporary and/or new permanent rules, interpretations, prohibitions, and restrictions adopted in response to these adverse market events. Temporary restrictions and/or prohibitions on short selling activity may be imposed by regulatory authorities with little or no advance notice and may impact prior and future trading activities of our investment portfolio. Additionally, the SEC, its non-U.S. counterparts, other governmental authorities and/or self-regulatory organizations may at any time promulgate permanent rules or interpretations consistent with such temporary restrictions or that impose additional or different permanent or temporary limitations or prohibitions. The SEC might impose different limitations and/or prohibitions on short selling from those imposed by various non-U.S. regulatory authorities. These different regulations, rules or interpretations might have different effective periods.

Regulatory authorities may, from time-to-time, impose restrictions that adversely affect our ability to borrow certain securities in connection with short sale transactions. In addition, traditional lenders of securities might be less likely to lend securities under certain market conditions. As a result, we may not be able to effectively pursue a short selling strategy due to a limited supply of securities available for borrowing. We may also incur additional costs in connection with short sale transactions, including in the event that they are required to enter into a borrowing arrangement in advance of any short sales. Moreover, the ability to continue to borrow a security is not guaranteed and we are subject to strict delivery requirements. The inability to deliver securities within the required time frame may subject us to mandatory close out by the executing broker-dealer. A mandatory close out may subject us to unintended costs and losses. Certain action or inaction by third parties, such as executing broker-dealers or clearing broker-dealers, may materially impact our ability to effect short sale transactions.

The Wall Street Transparency and Accountability Act of 2010 (the “WSTAA”) will, subject to certain exceptions, (1) require swaps accepted for clearing by a derivative clearing organization (a “DCO”) or for trading through a designated contract market or swaps-execution facility to be so cleared and traded, (2) require margin for almost all swap transactions, (3) subject traders with a “substantial position” in swaps to registration and regulation requirements as a “major swap participant” or “swap dealer” and (4) impose position limits on swaps either individually or in the aggregate with respect to positions in commodity-futures contracts. Although DME Advisors does not believe that it will have to register as a “major swap participant”, due to the WSTAA requirements the Company’s investments program may experience increased transaction costs to pay for the clearing, execution and segregation obligations associated with swap transactions. In addition, margin requirements may increase once margin is set by DCOs, with input from regulators, which may limit DME Advisors’ ability to engage in leverage and may limit investment returns. The application of position limits for swap contracts may also limit DME Advisors’ ability to hold a concentrated position in any particular contract or its exposure to an underlying commodity and may negatively impact DME Advisors’ ability to take advantage of current market trends or conditions.



[Back to Table of Contents](#)

We may invest in securities based outside the United States which may be riskier than securities of United States issuers.

Under our investment guidelines, DME Advisors may invest in securities of issuers organized or based outside the United States. These investments may be subject to a variety of risks and other special considerations not affecting securities of U.S. issuers. Particularly within the Euro-zone, there is increasing market concern as to the potential default of the government issuers. Should governments default on their obligations, there could be a negative impact on both the Company's direct holdings as well as non-government issues held within the country of default. Many foreign securities markets are not as developed or efficient as those in the United States. Securities of some foreign issuers are less liquid and more volatile than securities of comparable U.S. issuers. Similarly, volume and liquidity in many foreign securities markets are less than in the United States and, at times, price volatility can be greater than in the United States. Non-U.S. issuers may be subject to less stringent financial reporting and informational disclosure standards, regulatory oversight, practices and requirements than those applicable to U.S. issuers.

#### Risks Relating to our Class A Ordinary Shares

A shareholder may be required to sell its Class A ordinary shares.

Our Third Amended and Restated Memorandum and Articles of Association, or Articles, provide that we have the option, but not the obligation, to require a shareholder to sell its Class A ordinary shares for their fair market value to us, to other shareholders or to third parties if our Board of Directors determines that ownership of our Class A ordinary shares by such shareholder may result in adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders and that such sale is necessary to avoid or cure such adverse consequences.

Provisions of our Articles, the Companies Law of the Cayman Islands and our corporate structure may each impede a takeover, which could adversely affect the value of our Class A ordinary shares.

Our Articles contain certain provisions that could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. Our Articles provide that a director may only be removed for "cause" as defined in the Articles, upon the affirmative vote of not less than 50% of the votes cast at a meeting at which more than 50% of our issued and outstanding Class A ordinary shares are represented. Further, under our Articles, a director may only be removed without cause upon the affirmative vote of not less than 80% of the votes cast at a meeting at which more than 50% of our issued and outstanding Class A ordinary shares are represented.

Our Articles permit our Board of Directors to issue preferred shares from time to time, with such rights and preferences as they consider appropriate. Our Board of Directors may authorize the issuance of preferred shares with terms and conditions and under circumstances that could have an effect of discouraging a takeover or other transaction, deny shareholders the receipt of a premium on their Class A ordinary shares in the event of a tender or other offer for Class A ordinary shares and have a depressive effect on the market price of the Class A ordinary shares.

As compared to mergers under corporate law in the United States, it may be more difficult to consummate a merger of two or more companies in the Cayman Islands or the merger of one or more Cayman Islands companies with one or more overseas companies, even if such transaction would be beneficial to our shareholders. Cayman Islands law has statutory provisions that provide for the reconstruction and amalgamation of companies, which are commonly referred to, in the Cayman Islands, as "schemes of arrangement". The Companies Law (as amended) of the Cayman Islands provides for the merger or consolidation of two or more companies that are Cayman Islands entities or the merger of one or more Cayman Islands companies with one or more overseas companies, where the surviving entity is either a Cayman Islands company or an overseas company. Prior to the adoption of certain amendments to the Companies Law, the "schemes of arrangement" was the only vehicle available to consolidate companies and Cayman Islands law

did not provide for mergers as that term is understood under corporate law in the United States. Although the current merger provisions have made it faster and easier for companies to merge or consolidate than the “schemes of arrangement” statutory provision, these provisions do not replace the “schemes of arrangement” provision as the new merger law only applies to a transaction in which all companies involved are Cayman Islands companies or where the surviving entity is a Cayman Islands entity. With respect to all other mergers, the “schemes of arrangement” provision continues to apply. The procedural and legal requirements necessary to consummate these transactions under the new merger law or the “schemes of arrangement” provision may be more rigorous and take longer to complete than the procedures typically required to consummate a merger in the United States.

Under Cayman Islands law and practice, a scheme of arrangement must be approved at a shareholders’ meeting by each class of shareholders, in each case, by a majority of the number of holders of each class of an entity's shares that are present and voting, either in person or by proxy, at such a meeting, which holders must also represent 75% in value of such class issued that are present and voting, either in person or by proxy, at such meeting, excluding the shares owned by the parties to the scheme of arrangement. A merger requires approval by special resolution of the shareholders of each company (which normally requires, as a minimum, a two thirds majority of shareholders voting together as one class) and such other authorization, if any, as may be specified in such constituent company’s articles of association.

[Back to Table of Contents](#)

Although a merger under the new law does not require court approval, the convening of these meetings and the terms of the amalgamation under the “schemes of arrangement” must be sanctioned by the Grand Court of the Cayman Islands. Although there is no requirement to seek the consent of the creditors of the parties involved in the scheme of arrangement, the Grand Court typically seeks to ensure that the creditors have consented to the transfer of their liabilities to the surviving entity or that the scheme of arrangement does not otherwise materially adversely affect the creditors’ interests. Furthermore, the Grand Court will only approve a scheme of arrangement if it is satisfied that:

the statutory provisions as to majority vote have been complied with;

the shareholders have been fairly represented at the meeting in question;

the scheme of arrangement is such as a businessman would reasonably approve; and

the scheme of arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

In addition, David Einhorn, Chairman of our Board of Directors, owns all of the outstanding Class B ordinary shares. As a result, we will not be able to enter into a scheme of arrangement without the approval of Mr. Einhorn as the holder of our Class B ordinary shares.

Holders of Class A ordinary shares may have difficulty obtaining or enforcing a judgment against us, and they may face difficulties in protecting their interests because we are incorporated under Cayman Islands law.

Because we are a Cayman Islands company, there is uncertainty as to whether the Grand Court of the Cayman Islands would recognize or enforce judgments of United States courts obtained against us predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in the Cayman Islands against us predicated upon the securities laws of the United States or any state thereof.

We are incorporated as an exempted company limited by shares under the Companies Law. A significant amount of our assets are located outside of the United States. As a result, it may be difficult for persons purchasing Class A ordinary shares to effect service of process within the United States upon us or to enforce judgments against us or judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States or any state of the United States.

Although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will, based on the principle that a judgment by a competent foreign court will impose upon the judgment debtor an obligation to pay the sum for which judgment has been given, recognize and enforce a foreign judgment of a court of competent jurisdiction if such judgment is final, for a liquidated sum, not in respect of taxes or a fine or penalty if not inconsistent with a Cayman Islands judgment in respect of the same matters, and was not obtained in a manner, and is not of a kind, the enforcement of which is contrary to the public policy of the Cayman Islands. There is doubt, however, as to whether the courts of the Cayman Islands will, in an original action in the Cayman Islands, recognize or enforce judgments of U.S. courts predicated upon the civil liability provisions of the securities laws of the United States or any state of the United States on the grounds that such provisions are penal in nature.

A Cayman Islands court may stay proceedings if concurrent proceedings are being brought elsewhere.

Unlike many jurisdictions in the United States, Cayman Islands law does not specifically provide for shareholder appraisal rights on a merger or consolidation of an entity. This may make it more difficult for shareholders to assess

the value of any consideration they may receive in a merger or consolidation or to require that the offeror give a shareholder additional consideration if he believes the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies such as ours have no general rights under Cayman Islands law to inspect corporate records and accounts. Our directors have discretion under our Articles to determine whether or not, and under what conditions, the corporate records may be inspected by shareholders, but are not obligated to make them available to shareholders. This fact may make it more difficult for shareholders to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against our Board of Directors.

Provisions of our Articles may reallocate the voting power of our Class A ordinary shares and subject holders of Class A ordinary shares to SEC compliance.

In certain circumstances, the total voting power of our Class A ordinary shares held by any one person will be reduced to less than 9.9% and the total voting power of the Class B ordinary shares will be reduced to 9.5% of the total voting power of the total issued and outstanding ordinary shares. In the event a holder of our Class A ordinary shares acquires shares representing 9.9% or more of the total voting power of our total ordinary shares or the Class B ordinary shares represent more than 9.5% of the total voting power of our total outstanding shares, there will be an effective reallocation of the voting power of the Class A ordinary shares or Class B ordinary shares which may cause a shareholder to acquire 5% or more of the voting power of the total ordinary shares.

Such a shareholder may become subject to the reporting and disclosure requirements of Sections 13(d) and (g) of the Exchange Act. Such a reallocation also may result in an obligation to amend previous filings made under Section 13(d) or (g) of the Exchange Act. Under our Articles, we have no obligation to notify shareholders of any adjustments to their voting power. Shareholders should consult their own legal counsel regarding the possible reporting requirements under Section 13 of the Exchange Act.

As of December 31, 2011, David Einhorn owned 17.1% of the issued and outstanding ordinary shares, which given that each Class B share is entitled to ten votes, causes him to exceed the 9.5% limitation imposed on the total voting power of the Class B ordinary shares. Thus, the voting power held by the Class B ordinary shares that is in excess of the 9.5% limitation will be reallocated pro rata to holders of Class A ordinary shares according to their percentage interest in the Company. However, no shareholder will be allocated voting rights that would cause it to have 9.9% or more of the total voting power of our ordinary shares. The allocation of the voting power of the Class B ordinary shares to a holder of Class A ordinary shares will depend upon the total voting power of the Class B ordinary shares outstanding, as well as the percentage of Class A ordinary shares held by a shareholder and the other holders of Class A ordinary shares. Accordingly, we cannot estimate with precision what multiple of a vote per share a holder of Class A ordinary shares will be allocated as a result of the anticipated reallocation of voting power of the Class B ordinary shares.

[Back to Table of Contents](#)

Risks Relating to Taxation

We may become subject to taxation in the Cayman Islands, which would negatively affect our results.

Under current Cayman Islands law, we are not obligated to pay any taxes in the Cayman Islands on either income or capital gains. The Governor-in-Cabinet of Cayman Islands has granted us an exemption from the imposition of any such tax on us until February 1, 2025. We cannot be assured that after such date we would not be subject to any such tax. If we were to become subject to taxation in the Cayman Islands, our financial condition and results of operations could be significantly and negatively affected. See “Certain Cayman Islands Tax Considerations.”

Greenlight Capital Re, Greenlight Re and/or GRIL may be subject to United States federal income taxation.

Greenlight Capital Re and Greenlight Re are incorporated under the laws of the Cayman Islands, and GRIL is incorporated under the laws of Ireland. These entities intend to operate in a manner that will not cause us to be treated as engaging in a trade or business within the United States and will not cause us to be subject to current United States federal income taxation on Greenlight Capital Re's, Greenlight Re's and/or GRIL's net income. However, because there are no definitive standards provided by the Internal Revenue Code, regulations or court decisions as to the specific activities that constitute being engaged in the conduct of a trade or business within the United States, and as any such determination is essentially factual in nature, we cannot assure you that the United States Internal Revenue Service (the “IRS”), will not successfully assert that Greenlight Capital Re, Greenlight Re and/or GRIL are engaged in a trade or business within the United States. If the IRS were to successfully assert that Greenlight Capital Re, Greenlight Re, and/or GRIL have been engaged in a trade or business within the United States in any taxable year, various adverse tax consequences could result, including the following: Greenlight Capital Re, Greenlight Re and/or GRIL may become subject to current United States federal income taxation on its net income from sources within the United States; Greenlight Capital Re, Greenlight Re and/or GRIL may be subject to United States federal income tax on a portion of its net investment income, regardless of its source; Greenlight Capital Re, Greenlight Re, and/or GRIL may not be entitled to deduct certain expenses that would otherwise be deductible from the income subject to United States taxation; and Greenlight Capital Re, Greenlight Re and/or GRIL may be subject to United States branch profits tax on profits deemed to have been distributed out of the United States.

United States persons who own Class A ordinary shares may be subject to United States federal income taxation on our undistributed earnings and may recognize ordinary income upon disposition of Class A ordinary shares.

Passive Foreign Investment Company. Significant potential adverse United States federal income tax consequences generally apply to any United States person who owns shares in a passive foreign investment company, or a PFIC. We believe that each of Greenlight Capital Re and Greenlight Re was a PFIC in 2006, 2005 and 2004. We do not believe, although we cannot assure you, that either of Greenlight Capital Re or Greenlight Re were a PFIC since 2007. We cannot provide assurance that either Greenlight Capital Re, Greenlight Re or GRIL will not be a PFIC in any future taxable year.

In general, any of Greenlight Capital Re, Greenlight Re or GRIL would be a PFIC for a taxable year if either (i) 75% or more of its income constitutes “passive income” or (ii) 50% or more of its assets produce “passive income”. Passive income generally includes interest, dividends and other investment income but does not include income derived in the active conduct of an insurance business by a corporation predominantly engaged in an insurance business. This exception for insurance companies is intended to ensure that a bona fide insurance entity's income is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. We believe that we are currently operating and intend to continue operating our business with financial reserves at a level that should not cause us to be deemed PFICs, although we cannot assure you the IRS will not successfully challenge this conclusion. If we are unable to underwrite sufficient amount of risks, any of

Greenlight Capital Re, Greenlight Re or GRIL may become a PFIC.

In addition, sufficient risk must be transferred under an insurance entity's contracts with its insureds in order to qualify for the insurance exception. Whether our insurance contracts possess adequate risk transfer for purposes of determining whether income under our contracts is insurance income, and whether we are predominantly engaged in the insurance business, are subjective in nature and there is very little authority on these issues. However, because we are, and may continue to be, engaged in certain structured risk and other non-traditional reinsurance markets, we cannot assure you that the IRS will not successfully challenge the level of risk transfer under our reinsurance contracts for purposes of the insurance company exception. We cannot assure you that the IRS will not successfully challenge our interpretation of the scope of the active insurance company exception and our qualification for the exception. Further, the IRS may issue regulatory or other guidance that causes us to fail to qualify for the active insurance company exception on a prospective or retroactive basis. Therefore, we cannot assure you that we will satisfy the exception for insurance companies and will not be treated as PFICs currently or in the future.

Controlled Foreign Corporation. United States persons who, directly or indirectly or through attribution rules, own 10% or more of our Class A ordinary shares, which we refer to as United States 10% shareholders, may be subject to the controlled foreign corporation, or CFC, rules. Under the CFC rules, each United States 10% shareholder must annually include his pro rata share of the CFC's "subpart F income", even if no distributions are made. In general, a foreign insurance company will be treated as a CFC only if United States 10% shareholders collectively own more than 25% of the total combined voting power or total value of the entity's shares for an uninterrupted period of 30 days or more during any year. We believe that the dispersion of our Class A ordinary shares among holders and the restrictions placed on transfer, issuance or repurchase of our Class A ordinary shares (including the ownership limitations described below), will generally prevent shareholders who acquire Class A ordinary shares from being United States 10% shareholders. In addition, because our Articles prevent any person from holding 9.9% or more of the total combined voting power of our shares (whether held directly, indirectly or constructively), unless such provision is waived by the unanimous consent of our Board of Directors, we believe no persons holding Class A ordinary shares should be viewed as United States 10% shareholders of a CFC for purposes of the CFC rules. We cannot assure you, however, that these rules will not apply to you. If you are a United States person, we strongly urge you to consult your own tax advisor concerning the CFC rules.

[Back to Table of Contents](#)

Related Person Insurance Income. If:

our gross income attributable to insurance or reinsurance policies where the direct or indirect insureds are our direct or indirect United States shareholders or persons related to such United States shareholders equals or exceeds 20% of our gross insurance income in any taxable year; and

direct or indirect insureds and persons related to such insureds owned directly or indirectly 20% or more of the voting power or value of our stock,

a United States person who owns Class A ordinary shares directly or indirectly on the last day of the taxable year would most likely be required to include their pro rata share of our related person insurance income for the taxable year in their income. This amount would be determined as if such related person insurance income were distributed proportionally to United States persons at that date. We do not expect that we will knowingly enter into reinsurance agreements in which, in the aggregate, the direct or indirect insureds are, or are related to, owners of 20% or more of the Class A ordinary shares. We do not believe that the 20% gross insurance income threshold will be met. However, we cannot assure you that this is or will continue to be the case. Consequently, we cannot assure you that a person who is a direct or indirect United States shareholder will not be required to include amounts in its income in respect of related person insurance income in any taxable year.

If a United States shareholder is treated as disposing of shares in a foreign insurance corporation that has related person insurance income and in which United States persons own 25% or more of the voting power or value of the entity's capital stock, any gain from the disposition will generally be treated as a dividend to the extent of the United States shareholder's portion of the corporation's undistributed earnings and profits that were accumulated during the period that the United States shareholder owned the shares. In addition, the shareholder will be required to comply with certain reporting requirements, regardless of the amount of shares owned by the direct or indirect United States shareholder. Although not free from doubt, we believe these rules should not apply to dispositions of Class A ordinary shares because Greenlight Re is not directly engaged in the insurance business and because proposed United States Treasury regulations applicable to this situation appear to apply only in the case of shares of corporations that are directly engaged in the insurance business. We cannot assure you, however, that the IRS will interpret the proposed regulations in this manner or that the proposed regulations will not be promulgated in final form in a manner that would cause these rules to apply to dispositions of Class A ordinary shares.

United States tax-exempt organizations who own Class A ordinary shares may recognize unrelated business taxable income.

If you are a United States tax-exempt organization you may recognize unrelated business taxable income if a portion of our subpart F insurance income is allocated to you. In general, subpart F insurance income will be allocated to you if we are a CFC as discussed above and you are a United States 10% shareholder or there is related person insurance income and certain exceptions do not apply. Although we do not believe that any United States persons will be allocated subpart F insurance income, we cannot assure you that this will be the case. If you are a United States tax-exempt organization, we advise you to consult your own tax advisor regarding the risk of recognizing unrelated business taxable income.

Change in United States tax laws may be retroactive and could subject us, and/or United States persons who own Class A ordinary shares to United States income taxation on our undistributed earnings.

The tax laws and interpretations regarding whether an entity is engaged in a United States trade or business, is a CFC, has related party insurance income or is a PFIC are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the passive foreign investment company rules to an insurance

company and the regulations regarding related party insurance income are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming from the IRS. We are not able to predict if, when or in what form such guidance will be provided and whether such guidance will have a retroactive effect.

If investments held by GRIL are determined not to be integral to the insurance and reinsurance business carried on by GRIL, additional Irish tax could be imposed and our business and financial results could be materially adversely affected.

Based on administrative practice, taxable income derived from investments made by GRIL is generally taxed in Ireland at the rate of 12.5% on the grounds that such investments either form part of the permanent capital required by regulatory authorities, or are otherwise integral to the insurance and reinsurance business carried on by GRIL. GRIL intends to operate in such a manner so that the level of investments held by GRIL does not exceed the amount that is integral to the insurance and reinsurance businesses carried on by GRIL. If, however, investment income earned by GRIL exceeds these thresholds or if the administrative practice of the Irish Revenue Commissioners changes, Irish corporation tax could apply to such investment income at a higher rate (currently 25%) instead of the general 12.5% rate, and our results of operations could be materially adversely affected.

The impact of the initiative of the Organization for Economic Cooperation and Development to eliminate harmful tax practices is uncertain and could adversely affect our tax status in the Cayman Islands.

The Organization for Economic Cooperation and Development, or OECD, has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. Whilst the Cayman Islands is currently on the list of jurisdictions that have substantially implemented the internationally agreed tax standard, we are not able to predict if additional requirements will be imposed and if so whether changes arising from such additional requirements will subject us to additional taxes.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.



[Back to Table of Contents](#)

## ITEM 2. PROPERTIES

We currently occupy our office space in Grand Cayman, Cayman Islands under an operating lease agreement which will expire on June 30, 2018 unless we renew the lease for an additional five year term. In addition, during 2011, GRIL entered into an operating lease agreement for office space in Dublin, Ireland which expires in 2031 but provides us an option to terminate the lease in 2016 or 2021 without any penalty. We believe that for the foreseeable future the office spaces in the Cayman Islands and Ireland will be sufficient for conducting our operations.

## ITEM 3. LEGAL PROCEEDINGS

From time to time in the normal course of business, we may be involved in formal and informal dispute resolution procedures, which may include arbitration or litigation, the outcomes of which determine our rights and obligations under our reinsurance contracts and other contractual agreements. In some disputes, we may seek to enforce our rights under an agreement or to collect funds owing to us. In other matters, we may resist attempts by others to collect funds or enforce alleged rights. While the final outcome of legal disputes cannot be predicted with certainty, we do not believe that any existing dispute, when finally resolved, will have a material adverse effect on our business, financial condition or operating results.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

Our Class A ordinary shares began publicly trading on the Nasdaq Global Select Market on May 24, 2007 under the symbol "GLRE". The following table sets forth, for the periods indicated, the high and low reported sale price per share of our Class A ordinary shares on the Nasdaq Global Select Market.

	2011		2010	
	High	Low	High	Low
First Quarter	\$ 29.49	\$ 25.08	\$ 27.17	\$ 22.10
Second Quarter	\$ 28.58	\$ 23.66	\$ 27.40	\$ 21.56
Third Quarter	\$ 26.96	\$ 20.22	\$ 27.16	\$ 21.92
Fourth Quarter	\$ 24.84	\$ 20.01	\$ 29.96	\$ 25.08

## Holders

As of January 31, 2012, the number of holders of record of our Class A ordinary shares was approximately 38, not including beneficial owners of shares registered in nominee or street name who represent approximately 97% of the Class A ordinary shares issued and outstanding.

## Dividends

Since inception, we have not paid any cash dividends on our Class A ordinary shares or Class B ordinary shares, or collectively, our ordinary shares.

We currently do not intend to declare and pay dividends on our ordinary shares in the foreseeable future. However, if we decide to pay dividends, we cannot assure you that sufficient cash will be available to pay such dividends. In addition, a letter of credit facility prohibits us from paying dividends during an event of default as defined in the letter of credit agreement. Our future dividend policy will also depend on the requirements of any future financing agreements to which we may be a party and other factors considered relevant by our Board of Directors, such as our results of operations and cash flows, our financial position and capital requirements, general business conditions, rating agency guidelines, legal, tax, regulatory and any contractual restrictions on the payment of dividends. Further, any future declaration and payment of dividends is discretionary and our Board of Directors may at any time modify or revoke our dividend policy on our ordinary shares. Finally, our ability to pay dividends also depends on the ability of our subsidiaries to pay dividends to us. Although Greenlight Capital Re is not subject to any significant legal prohibitions on the payment of dividends, Greenlight Re and GRIL are subject to regulatory constraints that affect their ability to pay dividends and include minimum net worth requirements. As of December 31, 2011, Greenlight Re and GRIL both exceeded the minimum statutory capital requirements. Any dividends we pay will be declared and paid in U.S. dollars.

[Back to Table of Contents](#)

## Performance Graph

Presented below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on our Class A ordinary shares from May 24, 2007 (the date on which our Class A ordinary shares were first listed on the Nasdaq Global Select Market) through December 31, 2011 against the total return index for the Russell 2000 Index, or RUT, and the A.M. Best's Global Reinsurance Index, or AMBGR, for the same period. The performance graph assumes \$100 invested on May 24, 2007 in the ordinary shares of Greenlight Capital Re, the RUT and the AMBGR. The performance graph also assumes that all dividends are reinvested.

## Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Our Board of Directors has adopted a share repurchase plan authorizing the Company to purchase up to 2.0 million Class A ordinary shares. Shares may be purchased in the open market or through privately negotiated transactions. The plan, which expires on June 30, 2012, does not require the Company to repurchase any specific number of shares and may be modified, suspended or terminated at any time without prior notice. No repurchases of our Class A ordinary shares were made during the three months ended December 31, 2011. As of December 31, 2011, 1,771,100 Class A ordinary shares remained authorized for repurchase under the plan.

## ITEM 6.

## SELECTED FINANCIAL DATA

The following table sets forth our selected historical consolidated statement of income data for the fiscal years ended December 31, 2011, 2010, 2009, 2008 and 2007, as well as our selected consolidated balance sheet data as of December 31, 2011, 2010, 2009, 2008, and 2007, which are derived from our audited consolidated financial statements. The audited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and have been audited by BDO USA, LLP, an independent registered public accounting firm.

These historic results are not necessarily indicative of results for any future period. You should read the following selected financial data in conjunction with our consolidated financial statements and related notes thereto contained in Item 8 "Financial Statements and Supplementary Data" and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this filing and all other information appearing elsewhere or incorporated into this filing by reference.

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(\$ in thousands, except per share and share amounts)				
Summary Consolidated Statement of Income Data					
Gross premiums written	\$ 397,659	\$ 414,850	\$ 258,818	\$ 162,395	\$ 127,131
Net premiums earned	379,775	287,701	214,680	114,949	98,047
Net investment income (loss)	23,118	104,006	199,861	(126,126)	27,642
Loss and loss adjustment expenses incurred, net	241,690	177,018	119,045	55,485	39,507
Acquisition costs, net	138,751	102,645	69,232	41,649	38,939
General and administrative expenses	13,892	16,187	18,994	13,756	11,918

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Net income (loss)	\$	6,769	\$	90,642	\$	209,545	\$	(120,904)	\$	35,325
Earnings (Loss) Per Share Data (1)										
Basic	\$	0.19	\$	2.49	\$	5.78	\$	(3.36)	\$	1.16
Diluted		0.18		2.44		5.71		(3.36)		1.14
Weighted average number of ordinary shares used in the determination of earnings and loss per share										
Basic		36,548,466		36,420,719		36,230,501		35,970,479		30,405,007
Diluted		37,286,454		37,224,173		36,723,552		35,970,479		30,866,016
Selected Ratios (based on U.S. GAAP Consolidated Statement of Income data)										
Loss ratio (2)		63.6%		61.5%		55.4%		48.3 %		40.3%
Acquisition cost ratio (3)		36.5%		35.7%		32.3%		36.2 %		39.7%
Internal expense ratio (4)		3.7%		5.6%		8.8%		12.0 %		12.2%
Combined ratio (5)		103.8%		102.8%		96.5%		96.5 %		92.2%

[Back to Table of Contents](#)

	As of December 31,				
	2011	2010	2009	2008	2007
	(\$ in thousands, except per share and share amounts)				
Selected Consolidated Balance Sheet Data:					
Total investments	\$ 1,030,146	\$ 1,034,554	\$ 830,600	\$ 493,966	\$ 590,536
Cash and cash equivalents	42,284	45,540	31,717	94,144	64,192
Restricted cash and cash equivalents	957,462	977,293	590,871	248,330	371,607
Total assets	2,343,488	2,338,002	1,634,380	958,005	1,094,145
Securities sold, not yet purchased, at fair value	683,816	725,990	570,875	234,301	332,706
Due to prime brokers	260,359	273,071	—	—	—
Loss and loss adjustment expense reserves	241,279	186,467	137,360	81,425	42,377
Unearned premium reserves	225,735	234,983	118,899	88,926	59,298
Total liabilities	1,497,790	1,498,841	905,142	466,565	488,563
Total equity	845,698	839,161	729,238	491,440	605,582
Adjusted book value* (6)	803,103	793,403	698,641	485,382	605,582
Diluted adjusted book value* (7)	821,318	809,993	715,264	500,108	623,460
Ordinary shares outstanding:					
Basic	36,538,149	36,455,784	36,318,842	36,036,685	36,102,736
Diluted (8)	38,007,149	37,874,784	37,740,182	37,357,685	37,631,736
Per Share Data:					
Basic adjusted book value per share* (9)	\$ 21.98	\$ 21.76	\$ 19.24	\$ 13.47	\$ 16.77
Fully diluted adjusted book value per share* (10)	21.61	21.39	18.95	13.39	16.57

Certain prior year balances have been reclassified to the current year presentation. The reclassifications resulted in no changes to net income (loss) or retained earnings for any of the years presented above.

(1) Basic earnings per share is calculated by dividing net income by the weighted average number of common shares and participating securities outstanding for the period. Diluted earnings per share is calculated by taking into account the effects of exercising all dilutive stock options. In the event of a net loss, any stock options outstanding are excluded from the calculation of diluted loss per share. Unvested stock awards which contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (referred to as “participating securities”) are included in the number of shares outstanding for both basic and diluted earnings per share calculations. In the event of a net loss, the participating securities are excluded from both basic and diluted loss per share.

(2) The loss ratio is calculated by dividing net loss and loss adjustment expenses incurred by net premiums earned.

(3) The acquisition cost ratio is calculated by dividing net acquisition costs by net premiums earned.

(4) The internal expense ratio is calculated by dividing general and administrative expenses by net premiums earned.

(5) The combined ratio is the sum of the loss ratio, acquisition cost ratio and the internal expense ratio.

(6) Adjusted book value equals total equity minus non-controlling interest in joint venture.

(7) Diluted adjusted book value is the adjusted book value plus the proceeds from the exercise of in-the-money options issued and outstanding at year end.

(8) Diluted number of shares outstanding is the sum of basic shares outstanding and the in-the-money options issued and outstanding at year end.

(9) Basic adjusted book value per share is calculated by dividing adjusted book value by the number of shares and share equivalents issued and outstanding at year end.

(10) Fully diluted adjusted book value per share is calculated by dividing the diluted adjusted book value by the diluted number of shares outstanding at year end.

\* Adjusted book value, diluted adjusted book value, basis adjusted book value per share, and fully diluted adjusted book value per share are non-GAAP measures. For a reconciliation of the non-GAAP measures to the most comparable GAAP measures, refer to "Item 7. Management's discussion and analysis of financial condition and results of operations - Results of Operations".

[Back to Table of Contents](#)

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our results of operations for the years ended December 31, 2011, 2010 and 2009 and financial condition as of December 31, 2011 and 2010. The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes, which appear elsewhere in this filing.

### General

We are a Cayman Islands headquartered global specialty 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, that we believe will provide 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.

Because we employ a unique and differentiated underwriting philosophy, period-to-period comparisons of our underwriting results may not be meaningful. In addition, our historical investment results may not necessarily 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 United States generally accepted accounting principles ("U.S. GAAP"). 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 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, service and expertise. We expect the results of frequency business to be less volatile than those of severity business from period to period due to its greater predictability. We also expect that over time the profit margins and return on equity for 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.

### Revenues

We derive our revenues from two principal sources:

premiums from reinsurance on property and casualty business assumed; and  
income from investments.

Premiums from reinsurance on property and casualty business assumed are directly related to the number, type and pricing of contracts we write. For financial reporting purposes, we earn premiums over the contract period in proportion to the period of risk covered.

Income from our investments is primarily comprised of interest income, dividends, net realized gains and losses, and changes in unrealized gains and losses on investment securities. We also derive interest income from money market funds and notes receivable.

In addition, we may from time to time derive other income from gains on deposit accounted contracts, fees generated from advisory services provided by Verdant and fees relating to early termination of contracts.



[Back to Table of Contents](#)

## Expenses

Our expenses consist primarily of the following:

underwriting losses and loss adjustment expenses;

acquisition costs;

investment-related expenses; and

general and administrative expenses.

Loss and loss adjustment expenses are a function of the amount and type of reinsurance contracts we write and of the loss experience of the underlying coverage. As described below, loss and loss adjustment expenses are based on an actuarial analysis of the estimated losses, including losses incurred during the period and changes in estimates from prior periods. Depending on the nature of the contract, loss and loss adjustment expenses may be paid over a period of years.

Acquisition costs consist primarily of brokerage fees, ceding commissions, premium taxes, profit commissions, letters of credit fees, Federal excise tax, and other direct expenses we incur that are directly related to underwriting reinsurance contracts. We amortize deferred acquisition costs over the related contract term.

Investment-related expenses primarily consist of interest expense on borrowings, dividend expense on short sales, management fees and performance compensation that we pay to our investment advisor. We net these expenses against investment income in our consolidated financial statements.

General and administrative expenses consist primarily of salaries and benefits and related costs, including costs associated with our incentive compensation plan, bonuses and stock compensation expenses. General and administrative expenses also include professional fees, travel and entertainment, information technology, rent and other general operating expenses.

For stock option expenses, we calculate compensation cost using the Black-Scholes option pricing model and expense stock options over their vesting period, which is typically three years. For restricted stock awards, we calculate compensation cost using the grant date fair value of each award and expense the stock awards over their vesting period, which is typically three years.

## Critical Accounting Policies

Our consolidated financial statements contain certain amounts that are inherently subjective in nature and have required management to make assumptions and best estimates to determine reported values. If certain factors, including those described in “Risk Factors”, cause actual events or results to differ materially from our underlying assumptions or estimates, there could be a material adverse effect on our results of operations, financial condition or liquidity. We believe that the following accounting policies affect the more significant estimates used in the preparation of our consolidated financial statements. The descriptions below are summarized and have been simplified for clarity. A more detailed description of our significant accounting policies as well as recently issued accounting standards is included in Note 2 to the consolidated financial statements.

**Premium Revenues and Risk Transfer.** Our property and casualty reinsurance premiums are recorded as premiums written based upon contract terms and information received from ceding companies and their brokers. For excess of

loss reinsurance contracts, premiums are typically stated as a percentage of the subject premiums written by the client, subject to a minimum and deposit premium. The minimum and deposit premium is typically based on an estimate of subject premiums expected to be written by the client during the contract term. The minimum and deposit premium is reported initially as premiums written and adjusted, if necessary, in subsequent periods once the actual subject premium is known.

For each quota share or proportional property and casualty reinsurance contract we underwrite, our client estimates gross premiums written at inception of the contract. We generally account for such premiums using our best estimates and then adjust our estimates based on actual reports provided by our client and based on our expectations of the industry developments. As the contract progresses, we monitor actual premiums received in conjunction with correspondence from the client in order to refine our estimate. Variances from initial gross premiums written estimates can be greater for quota share contracts than for excess of loss contracts. All premiums on quota share contracts are earned over the coverage period. Unearned premiums consist of the unexpired portion of reinsurance provided.

At the inception of each of our reinsurance contracts, we receive premium estimates from the client, which, together with historical and industry data, we use to estimate what we believe will be the ultimate premium payable pursuant to each contract. We receive actual premiums written by each client as the client reports the actual results of the underlying insurance writings to us on a monthly or quarterly basis (depending on the terms of the contract). We book the actual premiums written when we receive them from our client. Each reporting period we estimate the amount of premiums that are written for stub periods that have not yet been reported. For example, for December year-end we may have to estimate December premiums ceded under certain contracts since the client may not be required to report the actual results to us until after we have filed our financial statements. Typically, premium estimates are only used for unreported stub periods, which accounts for a small percentage of our reported premiums written. We believe that estimating premiums written for these stub periods is standard reinsurance industry practice.

We are able to confirm the accuracy and completeness of premiums reported by our clients by either reviewing the client's statutory filings and/or performing an audit of the client, as per the terms of the contract. Discrepancies between premiums being ceded and reported under a contract are, in our experience, rare. To date, we have not had any material discrepancy in premiums being reported by a client that required a dispute resolution process.

[Back to Table of Contents](#)

We account for reinsurance contracts in accordance with U.S. GAAP. Assessing whether or not a reinsurance contract meets the conditions for risk transfer requires judgment. The determination of risk transfer is critical to reporting premiums written and is based, in part, on the use of actuarial and pricing models and assumptions. If we determine that a reinsurance contract does not transfer sufficient risk, or if a contract provides retroactive reinsurance coverage, we use deposit accounting. Any losses on such contracts are charged to earnings immediately and recorded in the 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 consolidated balance sheets. Amortized gains are recorded in the consolidated statements of income as other income.

**Investments.** Our investments in debt and equity securities that are classified as “trading securities” are carried at fair value in accordance with U.S. GAAP. The fair values of the listed equities are derived based on the last reported price on the balance sheet date as reported by a recognized exchange. 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 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.

The fair values of our investments in commodities are based on the commodity’s last reported price on the balance sheet date as reported by a recognized commodities exchange. Our investments in private and unlisted equity securities and limited partnerships, are all carried at fair value, based on broker or market maker quotes, or based on management’s assumptions developed from available information, using the services of our investment advisor. Investments in private equity funds are valued based on unadjusted net asset values reported by the funds’ managers.

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 or amortized cost, as appropriate) and included in net investment income in the consolidated statements of income.

Financial contracts which include total return swaps, credit default swaps, options, futures and other derivative instruments are recorded at their fair value with any unrealized gains and losses included in net investment income in the consolidated statements of income. Fair values on total return swaps are based on the underlying security’s fair value which is obtained from closing prices on a recognized exchange (for equity or commodity swaps), or from market makers or broker quotes. Fair values for credit default swaps trading in an active market are based on market maker or broker quotes taking into account credit spreads on identical contracts. Our exchange traded option contracts are recorded at fair value based on quoted prices in active markets. For over the counter (“OTC”) options and exchange traded options where a quoted price in an active market is not available, we obtain multiple market maker quotes to determine the fair values. Fair values for other derivative instruments are determined based on multiple broker or market maker quotes taking into account the liquidity and the availability of an active market for the derivative.

**Loss and Loss Adjustment Expense Reserves.** Our loss and loss adjustment expense reserves are comprised of:

case reserves resulting from claims notified to us by our clients;

incurred but not reported (“IBNR”) losses; and

estimated loss adjustment expenses.

Case reserves are provided by our clients, and IBNR losses are estimated each reporting period based on a contract by contract review of all data available to us for each individual contract. Each of our reinsurance contracts is unique and the methods and estimates we use vary depending on the facts and circumstances of each contract. The resulting total loss reserves, including IBNR loss reserves, are the sum of each loss reserve estimated on a contract by contract basis.

We establish reserves for contracts based on estimates of the ultimate cost of all losses including IBNR. These estimated ultimate reserves are based on our own actuarial estimates derived from reports received from ceding companies, industry data and historical experience. These estimates are periodically reviewed and adjusted when necessary. Since reserves are estimates, the setting of appropriate reserves is an inherently uncertain process. Our estimates are based upon actuarial and statistical projections and on our assessment of currently available data, predictions of future developments and estimates of future trends and other factors. The final settlement of losses may vary, perhaps materially, from the reserves initially established and periodically adjusted. All adjustments to the estimates are recorded in the period in which they are determined. Under U.S. GAAP we are not permitted to establish loss reserves, which include case reserves and IBNR loss reserves, until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses incurred up to the reporting date are established, with no allowance for the establishment of loss reserves to account for expected future loss events.

For natural peril exposed business we generally establish loss reserves based on loss payments and case reserves reported by our clients when, and if, received. We then add our estimates for IBNR losses to the case reserves. To establish our IBNR loss estimates, in addition to the loss information and estimates communicated by ceding companies, we use industry information, knowledge of the business written and management's judgment.

For most of the contracts we write, our risk exposure is limited by the fact that the contracts have defined limits of liability. Once the loss limit for a contract has been reached, we have no further exposure to additional losses from that contract. However, certain contracts, particularly quota share contracts that relate to first dollar exposure, may not contain aggregate limits.

[Back to Table of Contents](#)

For all non-natural peril business, we initially reserve every individual contract to the expected loss and loss expense ratio that we calculated when we originally priced the business. In our pricing analysis, we typically utilize a significant amount of information both from the individual client and from industry data. Where practical, we compare historic reserving data that we receive from our client, if any, to publicly available financial statements of the client in an effort to identify, confirm and monitor the accuracy and completeness of the data. We require each of our clients to provide loss information for each reporting period, which, depending on the contract, could be monthly or quarterly. The loss information required depends on the terms and conditions of each contract and may include many years of history. Depending on the type of business underwritten, we are entitled to receive client and industry information on historical paid losses, incurred losses, number of open claims, number of closed claims, number of total claims, listings of individual large losses, earned premiums, policy count, policy limits underwritten, exposure information and rate change information. We may also receive information by class or subclass of business. If we do not receive reserving data from a client, we rely on industry data, as well as the judgment and experience of our underwriters and actuaries.

We rely more on client and industry data than our own data to identify unusual trends requiring changes in reserve estimates. Each reinsurance contract is different and the degree to which we rely on client data versus our own data varies greatly from contract to contract. The extent to which we rely on client data for reserve setting purposes depends upon the availability of historical loss data from the client and our judgment as to how reliable we believe the client's historic loss performance is compared to its current book of business. We may from time to time supplement client data with industry and competitor information where we deem appropriate. Where available, we also receive relevant actuarial reports from the client. We supplement this information with subjective information on each client, which may include management biographies, competitor information, meetings with the client and supplementary industry research and data.

Generally, we obtain regular updates of premium and loss related information for the current period and historical periods, which we utilize to update our initial expected loss and loss expense ratio. There may be a time lag from when claims are reported to our client and when our client reports the claims to us. This time lag may impact our loss reserve estimates from period to period. Client reports, whether due monthly or quarterly, have set reporting dates of when they are due to us (for example, fifteen days after month end). As such, the time lag in the client's reporting depends upon the terms of the specific contract. The timing of the reporting requirements is designed so that we receive premium and loss information as soon as practicable once the client has closed its books. Accordingly, there should be a very short lag in such reporting. Additionally, most of our contracts that have the potential for large single event losses have provisions that such loss notification needs to be received immediately upon the occurrence of an event. Once we receive this updated information we use a variety of standard actuarial methods in our analysis each quarter. Such methods may include:

**Paid Loss Development Method.** We estimate ultimate losses by calculating past paid loss development factors and applying them to exposure periods with further expected paid loss development. The paid loss development method assumes that losses are paid in a consistent pattern. It provides an objective test of reported loss projections because paid losses contain no reserve estimates. For many coverages, claim payments are made very slowly and it may take years for claims to be fully reported and settled.

**Reported Loss Development Method.** We estimate ultimate losses by calculating past reported loss development factors and applying them to exposure periods with further expected reported loss development. Since reported losses include payments and case reserves, changes in both of these amounts are incorporated in this method. This approach provides a larger volume of data to estimate ultimate losses than paid loss methods. Thus, reported loss patterns may be less varied than paid loss patterns, especially for coverage that have historically been paid out over a long period of time but for which claims are reported relatively early and case loss reserve estimates have been established.

**Expected Loss Ratio Method.** We estimate ultimate losses under the expected loss ratio method, by multiplying earned premiums by an expected loss ratio. We select the expected loss ratio using industry data, historical company data and our professional judgment. We use this method for lines of business and contracts where there are no historical losses or where past loss experience is not credible.

**Bornhuetter-Ferguson Paid Loss Method.** We estimate ultimate losses by modifying expected loss ratios to the extent paid losses experienced to date differ from what would have been expected to have been paid based upon the selected paid loss development pattern. This method avoids some of the distortions that could result from a large development factor being applied to a small base of paid losses to calculate ultimate losses. We generally use this method for lines of business and contracts where there are limited historical paid losses.

**Bornhuetter-Ferguson Reported Loss Method.** We estimate ultimate losses by modifying expected loss ratios to the extent reported losses experienced to date differ from what would have been expected to have been reported based upon the selected reported loss development pattern. This method avoids some of the distortions that could result from a large development factor being applied to a small base of reported losses to calculate ultimate losses. We generally use this method for lines of business and contracts where there are limited historical reported losses.

In addition, we supplement our analysis with other reserving methodologies that we deem to be relevant to specific contracts.

For each contract, we utilize each reserving methodology that our actuaries deem appropriate in order to calculate a best estimate, or point estimate, of reserves. We use various actuarial methods to provide data point estimates to aid us in our estimation of reasonable and adequate loss reserves. In setting our reserves, we do not use a range of estimates that may be subject to adjustment. We analyze reserves on a contract by contract basis and do not reserve based on aggregated product lines. Whether we use one methodology, a combination of methodologies or all methodologies depends upon the contract and the judgment of the actuaries responsible for the contract. We do not have a set weighting of the various methods we use. Certain of the methods we consider are more appropriate depending on the type and structure of the contract; the point we are at in the contract's life-cycle (i.e. how mature is the contract); and the duration of the expected paid losses on the contract. For example, the data estimation for contracts that are relatively new and therefore have little paid loss development is more appropriately considered using the Bornhuetter-Ferguson method than a paid loss development method.

[Back to Table of Contents](#)

Our aggregate reserves are the sum of the point estimate of all contracts. We perform a quarterly loss reserve analysis on each contract regardless of the line of business. This analysis may incorporate some or all of the information described above, using some or all of the methodologies described above. We generally calculate IBNR loss reserves for each contract by estimating the ultimate incurred losses at any point in time and subtracting cumulative paid claims and case reserves, which incorporate specific exposures, loss payment and reporting patterns and other relevant factors. Each quarter, our reserving committee, which is comprised of our Chief Executive Officer, Chief Financial Officer, Chief Actuary, Controller and Reserving Actuary, meets to assess the adequacy of our loss reserves based on the reserve analysis and recommendations prepared by the Company's actuaries. The reserving committee discusses each contract individually and approves or revises the stated reserves.

Additionally, we contract with a third-party actuarial firm to perform a quarterly reserve review and to annually opine on the reasonableness and adequacy of our loss reserves. We provide our external actuary with our pricing models, reserving analysis and any other data they may request. Additionally, the actuarial firm may inquire as to the various assumptions and estimates that we may use in our reserving analysis. The external actuarial firm independently creates its own reserving models based on industry loss information, augmented by specific client loss information that we may be asked to provide as well as its own independent assumptions and estimates. Based on various reserving methodologies that the actuarial firm considers appropriate, it creates a reserve estimate for each contract in our portfolio and provides us with an aggregate recommended loss reserve, including IBNR. If there are material differences between our booked reserves and the actuarial firm's recommended reserves, we review the differences and agree upon and make any necessary adjustments to the booked reserves. To date there have been no material differences resulting from the external actuary's reviews.

Because of the uncertainties that surround our estimates of loss and loss adjustment expense reserves, we cannot be certain that ultimate loss and loss adjustment expense payments will not exceed our estimates, or be less than our estimates. If our estimated reserves are deficient, we would be required to increase loss reserves in the period in which such deficiencies are identified which would cause a charge to our earnings and a reduction of our capital. Similarly, if our estimated reserves are excessive, we would decrease loss reserves in such period in which the excess is identified. By way of illustration, since we started underwriting operations in 2006, the reserve re-estimation process has resulted in the following effect on the prior year reserves and net income during each of the years ended December 31:

Calendar Year	Effect on prior year reserves	Effect on net income
	(\$ in thousands)	
2011	\$ 26,015 increase	\$ 26,015 decrease
2010	\$ 8,678 increase	\$ 8,678 decrease
2009	\$ 7,597 decrease	\$ 7,597 increase
2008	\$ 11,988 decrease	\$ 11,988 increase
2007	\$ 1,077 decrease	\$ 1,077 increase

Given the uncertainties involved in estimating ultimate reserves and since we reserve to a point estimate on an individual contract basis, our estimated reserves may be deficient or excessive. Historical development of estimated reserves is not an accurate reflection of future loss development. Additionally, external factors can influence prior year loss development. For example, changes in specific tort law which may cause ultimate loss awards to increase or decrease could have a material effect on our loss reserve development. We are unable to predict with accuracy the magnitude or direction that such external factors may have on our estimated loss reserves.

Acquisition Costs. We capitalize brokerage fees, ceding commissions, premium taxes and other direct expenses that relate directly to and vary with the writing of reinsurance contracts. Acquisition costs are deferred subject to ultimate

recoverability and amortized over the related period of risk covered. Acquisition costs also include profit commissions. Certain contracts include provisions for profit commissions to be paid to the ceding insurer based upon the ultimate experience of the contracts. The methodology for calculating profit commissions are specific to the individual contracts and vary from contract to contract. Typically profit commissions are calculated and accrued based on the expected loss experience for such contracts and recorded when the expected loss experience indicates that a profit commission is probable under the contract terms. Profit commission reserves, if any, are included in reinsurance balances payable on the consolidated balance sheets.

**Bonus Accruals.** Under the Company's bonus program, each employee's target bonus consists of two components: a discretionary component based on a qualitative assessment of each employee's performance and a quantitative component based on the return on deployed equity ("RODE") for each underwriting year relating to reinsurance operations. The qualitative portion of an employee's annual bonus is accrued at each employee's target amount, which may differ significantly from the actual amount awarded. The quantitative portion of each employee's annual bonus is accrued based on the expected RODE for each underwriting year and adjusted for changes in the expected RODE and actual investment return each quarter until the final quantitative bonus is calculated and paid two years from the end of the fiscal year in which the business was underwritten. The Compensation Committee approves all quantitative bonuses prior to being paid. The expected RODE calculation utilizes a proprietary model which requires significant estimation and judgment. Actual RODE may vary significantly from the expected RODE and any adjustments to the quantitative bonus estimates, which may be material, are recorded in the period in which they are determined.

**Share-Based Payments.** We have established a Stock Incentive Plan for directors, employees and consultants. U.S. GAAP requires us to recognize share-based compensation transactions using the fair value at the grant date of the award. We calculate the compensation for restricted stock awards based on the price of the Company's common shares at the grant date and recognize the expense over the vesting period. Determining the fair value of share option awards at the grant date requires significant estimation and judgment. We use an option-pricing model (Black-Scholes pricing model) to assist in the calculation of fair value. Our shares have not been publicly traded for a sufficient length of time to reasonably estimate the expected volatility. Therefore, we have determined our expected volatility based primarily on the historical volatility of a peer group of companies in the reinsurance industry while also considering our own historical volatility. We typically considered factors such as an entity's industry, stage of life cycle, size and financial leverage when selecting the peer group. Additionally, we used the full life of the option, ten years, as the estimated term of the option, and we have assumed that dividends will not be paid. If actual results differ significantly from these estimates and assumptions, particularly in relation to our estimation of volatility which requires significant judgment due to our limited operating history, share-based compensation expense, primarily with respect to future share-based awards, could be materially impacted.



[Back to Table of Contents](#)

Outlook and Trends

Industry capital has generally increased, in part due to the lack of large natural catastrophes in 2009 and 2010. We believe that the 2011 catastrophes, specifically the earthquakes in New Zealand and Japan and the floods in Thailand, eroded industry capital. Notwithstanding the eroded capital, we believe the reinsurance industry, in general, remains over capitalized and that the recent catastrophes likely will result only in a reduction of share buybacks rather than a hardening of reinsurance pricing. Further, we believe that the slowdown in worldwide economic activity continues to weaken the overall demand for property and casualty insurance and, accordingly, reinsurance. Although price reductions from prior years appear to have slowed and in some lines reversed, we believe that pricing of the property and casualty industry likely will be relatively flat for the near term, despite the fact that current price levels are not economically rational.

We believe the industry will ultimately need to increase pricing given that the prior years' reserve redundancies have been reduced substantially and current interest rates on fixed maturity investments remain low. We expect to see signs of moderate price increases during 2012. Price increases could be more significant if financial and credit markets experience adverse shocks resulting in the loss of capital of insurers and reinsurers, or if there are more major catastrophic events, especially in North America. The Florida homeowners' insurance market continues to experience significant rate increases. We have seen signs of some hardening of pricing in the global property catastrophe business as a result of the 2011 catastrophic events. In addition, changes in the widely used catastrophe risk model, Risk Management Solutions (RMS 11.0), will increase the modeled expected losses for many catastrophe programs, which could result in some hardening of property catastrophe pricing. For our January 1, 2012 renewals, we experienced rate increases compared to the January 1, 2011 renewals, of approximately 15% for our property catastrophe retrocession accounts and we expect pricing to continue to remain at this level during 2012, or increase further for loss impacted programs, or those programs with worldwide coverage. We intend to monitor trends in all lines of business to continue to assess whether pricing and terms and conditions change appreciably.

The current global economic conditions could affect various lines of business; however, we believe that opportunities could arise in a number of areas, including the lines of business:

that experience significant losses;

where current market participants are experiencing financial distress or uncertainty; and

that are premium and capital intensive due to regulatory and other requirements.

Despite an overall less attractive marketplace, we believe that we are well positioned to compete for frequency business due to our increasing market recognition, the development of our strategic relationships and the rating upgrade of Greenlight Re to "A (Excellent)" by A.M. Best on September 26, 2011. We believe that the rating upgrade should allow us to access new markets, expand our existing relationships and increase the quality and quantity of deal submissions we receive. Meanwhile, there are a number of insurers and reinsurers that have suffered and continue to suffer from capacity issues. During 2011, we saw a number of large, frequency-oriented opportunities that we believe fit well within our business strategy. We converted most of these opportunities into bound contracts and have developed relationships that could provide further opportunities in 2012. Further, there has been additional consolidation activity in the industry and we believe if such activity continues and the number of industry participants decreases, we could benefit from increased opportunities since insurers may prefer to diversify their reinsurance placements.

We intend to continue to monitor 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.

We believe that our investment portfolio is neutrally positioned going into 2012, with a net long position of 37% as of December 31, 2011. The economic picture in the United States has shown steady improvement, with very accommodative monetary policy, an improving employment situation, and strong corporate profits. Many companies' business results have been better than their stock performance, which makes them comparatively attractive investments. Against this backdrop, there continues to be a debt overhang in Europe and overall global uncertainty, leading to volatile equity markets. We are finding good investment opportunities, both long and short, and continue to hedge macroeconomic uncertainty with a significant position in gold and other macro hedges in the form of options on higher interest rates and foreign exchange rates, short positions in sovereign debt and sovereign credit default swaps.

## Results of Operations

### Years Ended December 31, 2011, 2010 and 2009

For the year ended December 31, 2011, we reported net income of \$6.8 million as compared to net income of \$90.6 million for the year ended December 31, 2010. The net income reported for 2011 included net investment income of \$23.1 million, compared to \$104.0 million for 2010. Our investment portfolio reported a gain of 2.1% for the year ended December 31, 2011 compared to a gain of 11.0% for the year ended December 31, 2010. The underwriting loss before general and administrative expenses for the year ended December 31, 2011 was \$(0.7) million due to unfavorable loss development, compared to underwriting income of \$8.0 million for the year ended December 31, 2010. General and administrative expenses decreased for the year ended December 31, 2011 to \$13.9 million from \$16.2 million for the year ended December 31, 2010, primarily as a result of lower employee bonuses due to a decrease in underwriting results.

For the year ended December 31, 2010, we reported net income of \$90.6 million compared to net income of \$209.5 million for the year ended December 31, 2009. The net income reported in 2010 principally related to a net investment income of \$104.0 million. Our investment portfolio reported a gain of 11.0% for the year ended December 31, 2010 compared to a gain of 32.1% for the year ended December 31, 2009. The underwriting income before general and administrative expenses for the year ended December 31, 2010 decreased by 69.7% to \$8.0 million compared to \$26.4 million for the year ended December 31, 2009. In addition, we generated other income of \$4.5 million for the year ended December 31, 2009 relating to penalty fees upon early termination of a reinsurance contract, net gains on deposit accounted contracts and advisory fees earned by Verdant.

[Back to Table of Contents](#)

Our primary financial goal is to increase the long-term value in fully diluted adjusted book value per share. During the year ended December 31, 2011, the fully diluted adjusted book value per share increased by \$0.22 per share, or 1.0%, to \$21.61 per share from \$21.39 per share at December 31, 2010. For the year ended December 31, 2010, the fully diluted adjusted book value per share increased by \$2.44 per share, or 12.9%, to \$21.39 per share from \$18.95 per share at December 31, 2009.

For the year ended December 31, 2011, the basic adjusted book value per share increased by \$0.22 per share, or 1.0%, to \$21.98 per share from \$21.76 per share at December 31, 2010. For the year ended December 31, 2010, the basic adjusted book value per share increased by \$2.52 per share, or 13.1%, to \$21.76 per share from \$19.24 per share at December 31, 2009.

Basic adjusted book value per share is a non-GAAP measure as it excludes the non-controlling interest in joint venture from total equity. In addition, fully diluted adjusted book value per share is also a non-GAAP measure and represents basic adjusted book value per share combined with the impact from dilution of all in-the-money stock options issued and outstanding as of any period end. We believe that long-term growth in fully diluted adjusted book value per share is the most relevant measure of our financial performance. In addition, fully diluted adjusted 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 property and casualty reinsurance industry.

The following table presents a reconciliation of the non-GAAP basic adjusted and fully diluted adjusted book value per share to the most comparable GAAP measure.

	December 31, 2011	December 31, 2010	December 31, 2009
	(\$ in thousands, except per share and share amounts)		
Basic adjusted and fully diluted adjusted book value per share numerator:			
Total equity (GAAP)	\$ 845,698	\$ 839,161	\$ 729,238
Less: Non-controlling interest in joint venture	(42,595)	(45,758)	(30,597)
Basic adjusted book value per share numerator	\$ 803,103	\$ 793,403	\$ 698,641
Add: Proceeds from in-the-money options issued and outstanding	18,215	16,590	16,623
Fully diluted adjusted book value per share numerator	\$ 821,318	\$ 809,993	\$ 715,264
Basic adjusted and fully diluted adjusted book value per share denominator:			
Ordinary shares issued and outstanding for basic adjusted book value per share denominator	36,538,149	36,455,784	36,318,842
Add: In-the-money stock options issued and outstanding	1,469,000	1,419,000	1,421,340
Fully diluted adjusted book value per share denominator	38,007,149	37,874,784	37,740,182
Basic adjusted book value per share	\$ 21.98	\$ 21.76	\$ 19.24
Fully diluted adjusted book value per share	\$ 21.61	\$ 21.39	\$ 18.95

### Premiums Written

Details of gross premiums written for the years ended December 31, are provided in the following table:

	2011		2010		2009	
	(\$ in thousands)					
Frequency	\$ 381,109	95.8%	\$ 391,932	94.5%	\$ 226,949	87.7%
Severity	16,550	4.2	22,918	5.5	31,869	12.3
Total	\$ 397,659	100.0%	\$ 414,850	100.0%	\$ 258,818	100.0%

We expect our annual reporting of premiums written to be volatile as our underwriting portfolio continues to develop. Additionally, the composition of premiums written between frequency and severity business may vary from year to year depending on the specific market opportunities that we pursue. For the year ended December 31, 2011, the premiums written relating to frequency business decreased by \$10.8 million, or 2.8%, from the year ended December 31, 2010. The decrease in premiums written is the net impact of increases in certain lines of business being more than offset by decreases in other lines. The largest increase in frequency premiums written related to motor liability line of business which increased \$31.7 million, or 57.3%, compared to the same period in 2010. The increase was primarily related to several new non-standard automobile contracts entered into during the year ended December 31, 2011. Our motor physical damage premiums also increased by \$3.3 million, or 89.3%, primarily as a result of these new contracts. Our professional liability premiums increased by \$13.1 million, or 170.7%, partially due to a new quota share professional indemnity contract entered into during the year ended December 31, 2011 and partially due to an existing contract which generated higher volume of premiums upon renewal compared to the prior year. Our workers' compensation premiums for the year ended December 31, 2011, increased by \$7.4 million, or 34.3%, principally due to higher volume of premiums on an existing multi-line contract that was renewed during 2011.

These increases were offset by decreases in premiums related to our specialty health, personal, general liability and financial lines during the year ended December 31, 2011. Health premiums decreased \$28.0 million, or 42.0%, partly due to certain contracts not being renewed during 2011 and partly due to our clients shrinking their premium volume on underlying contracts. Premiums for our personal line decreased by \$24.5 million, or 13.7%, primarily due to a Florida homeowners' contract commuted during the fourth quarter of 2011 as the ceding insurer underwent a restructuring and both parties agreed to terminate the relationship. The decrease from the commuted contract was partially offset by an increase in premiums on our other Florida homeowners' contracts. Premiums for our general liability lines decreased \$9.2 million, or 21.7%, while lower surety and trade credit premiums decreased the financial line by \$4.5 million, or 29.5%.

[Back to Table of Contents](#)

For the year ended December 31, 2010, the premiums written relating to frequency business increased by \$165.0 million, or 72.7%, from the year ended December 31, 2009. The increase was a result of the continuing development of our underwriting activities, which resulted in a number of new and renewing frequency contracts written during the year ended December 31, 2010. The largest increase in frequency premiums written related to several new multi-year homeowners' personal lines contracts entered into during 2010 which accounted for 87.7% of the increase. The Florida homeowners' insurance market was a key area of our underwriting focus during 2010. We continued to generate growth in most of our other lines of business, such as health, general liability, and professional liability which contributed 10.7%, 8.8%, and 4.7%, respectively, to the increase in frequency premiums written for the year ended December 31, 2010. The growth in health, general liability, and professional liability lines was achieved through a combination of renewals and new relationships created during 2010. In addition, during 2010, we entered into financial line (surety and trade credit) which contributed 9.3% to the increase in premiums. These increases were partially offset by a decrease in our motor liability premiums of \$40.1 million, as some of our commercial motor contracts were placed into run-off during 2010.

For the year ended December 31, 2011, the premiums written relating to severity contracts decreased by \$6.4 million, or 27.8%, from the year ended December 31, 2010. The decrease was principally due to the continued reduction of our participation in property catastrophe contracts because of the softening market conditions at the time. In addition, we did not renew a casualty clash contract during 2011 as the terms offered to us did not meet our risk appetite and return hurdle. Subsequently, during the second and third quarters of 2011, we entered into new excess of loss natural peril contracts on terms more attractive than we had been offered at the beginning of the year, which partially offset the decrease in severity premiums.

For the year ended December 31, 2010, the premiums written relating to severity contracts decreased by \$9.0 million, or 28.1%, from the year ended December 31, 2009. The decrease was principally due to our decision to reduce our participation in a property catastrophe contract early in the year which accounted for \$8.3 million of the decrease. In addition, we did not renew a professional liability stop-loss contract during 2010, and also returned premiums upon commutation of a medical malpractice contract, which together contributed \$6.2 million to the decrease in premiums written for the year ended December 31, 2010. The decrease was offset partially by \$6.0 million of new severity premiums generated from opportunities we found during 2010, including a multi-line excess of loss catastrophe contract and a financial surety contract.

Details of net premiums written for the years ended December 31, are provided in the following table:

	2011		2010		2009	
			(\$ in thousands)			
Frequency	\$ 334,189	95.3%	\$ 379,921	94.3%	\$ 213,673	87.0%
Severity	16,550	4.7	22,918	5.7	31,869	13.0
Total	\$ 350,739	100.0%	\$ 402,839	100.0%	\$ 245,542	100.0%

We entered into retrocessional contracts with ceded premiums of \$46.9 million, \$12.0 million and \$13.3 million for the years ended December 31, 2011, 2010 and 2009, respectively. The increase in ceded premiums for the year ended December 31, 2011, was principally due to a Florida homeowners' contract entered into during 2011 which included a quota share contract retroceded by us to the ceding insurer's affiliated reinsurer. The decrease in ceded premiums for the year ended December 31, 2010, was the combined result of our decision to reduce the percentage retroceded on a casualty contract upon renewal, as well as the result of a ceding insurer's decision to directly retrocede an excess layer of coverage upon renewal in 2010, whereas we had purchased retrocession for this layer during 2009. The decrease was partially offset by higher premiums on a multi-line frequency casualty contract which in turn resulted in higher premiums ceded by us on the corresponding quota share retroceded contract.

## Net Premiums Earned

Net premiums earned reflect the inclusion into income of net premiums written over the term of the reinsurance contracts. Details of net premiums earned for the years ended December 31, are provided in the following table:

	2011		2010		2009	
	(\$ in thousands)					
Frequency	\$ 360,231	94.9%	\$ 258,877	90.0%	\$ 169,530	79.0%
Severity	19,544	5.1	28,824	10.0	45,150	21.0
Total	\$ 379,775	100.0%	\$ 287,701	100.0%	\$ 214,680	100.0%

Premiums relating to quota share contracts are earned over the contract period in proportion to the period of protection. Similarly, incoming unearned premiums are earned in proportion to the remaining period of protection. For the year ended December 31, 2011, the frequency earned premiums increased \$101.4 million, or 39.2%. The personal lines contracts accounted for \$72.7 million of the increase primarily related to the new Florida homeowners' property insurance contracts written during 2010 and 2011. Since the new 2010 contracts inception in the middle of 2010, a large portion of the premiums was earned during 2011 as the period of protection extended into 2011. To a lesser extent, the increase in earned premiums related to professional indemnity, motor liability (including physical damage), financial, general liability and workers' compensation contracts, which together accounted for \$31.1 million of the increase. The increase in frequency earned premiums was partially offset by a \$2.5 million decrease in the specialty health line.

For the year ended December 31, 2011, severity earned premiums decreased \$9.3 million, or 32.2%, compared to the 2010 year. The decrease was partially due to our decision to continue reducing our participation in a number of property catastrophe contracts during 2011 due to softening market conditions; and partially due to premiums fully earned on a multi-year professional liability contract during 2010, with no new professional liability severity contract written during 2011.

[Back to Table of Contents](#)

For the year ended December 31, 2010, the increase in frequency earned premiums of \$89.3 million, or 52.7%, reflected the additional quota share contracts written throughout the 2010 year. The increase primarily related to the new Florida homeowners' property insurance contracts written during 2010 which accounted for \$65.2 million of the increase. The remaining increase in earned premiums related to growth in existing general liability and health contracts, which together accounted for \$40.0 million of the increase, and to a lesser extent from new relationships formed during 2010 in other lines such as financial (surety and trade credit), and professional indemnity which together accounted for \$9.8 million of the increase. The increase in frequency earned premiums was partially offset by a \$25.7 million decrease relating to motor liability contracts that were placed into run-off during 2010. For the year ended December 31, 2010, severity earned premiums decreased \$16.3 million, or 36.2%, compared to the 2009 year. The decrease was principally due to our decision to significantly reduce our participation in a property catastrophe contract during 2010. In addition, to lesser extent, the decrease was a result of a multi-year professional liability contract written in 2007 that expired in 2010 without being renewed; and a result of commuting two contracts, one relating to medical malpractice and another relating to professional liability aggregate stop-loss. These decreases were offset by the premiums earned from the financial line.

### Losses Incurred

Losses incurred include losses paid and changes in loss reserves, including reserves for IBNR losses, net of actual and estimated loss recoverables. Details of losses incurred for the years ended December 31, are provided in the following table:

	2011		2010		2009	
	(\$ in thousands)					
Frequency	\$ 236,729	98.0%	\$ 178,242	100.7%	\$ 95,934	80.6%
Severity	4,961	2.0	(1,224)	(0.7)	23,111	19.4
Total	\$ 241,690	100.0%	\$ 177,018	100.0%	\$ 119,045	100.0%

For the year ended December 31, 2011, the total losses incurred on frequency contracts increased by \$58.5 million, or 32.8%, primarily due to the increase in earned premiums for the reasons explained above. Losses incurred on the personal line accounted for a majority of the increase, followed by general liability, professional liability and workers' compensation lines. For the year ended December 31, 2011, the losses incurred relating to motor liability were unchanged from the same period in 2010. However this was the net result of the decrease in losses incurred relating to the commercial motor contracts which are in run-off; wholly offset by, (i) increase in loss reserves on new non-standard automobile contracts entered during 2011, and (ii) adverse loss development on a prior year multi-line contract covering motor and general liabilities.

Losses incurred as a percentage of premiums earned (i.e. loss ratio) fluctuate based on the mix of business, and the favorable or adverse development of our larger contracts. For the year ended December 31, 2011, the loss ratio of our frequency business decreased to 65.7% from 68.9% in 2010. The decrease in frequency loss ratio was a result of net incurred losses increasing by 32.8% while the earned premiums increased by 39.2%. Since loss ratios are a function of net incurred losses divided by net earned premiums, and because the denominator increased more than the numerator, the overall ratio decreased. Additionally, although our multi-line contracts experienced adverse loss development during 2011, the overall frequency loss ratio decreased as a result of the mix of business. Our personal lines accounted for 43% of net earned premiums for the 2011 fiscal year compared to 32% for the 2010 year, and since the loss ratio of our personal lines was less than the average frequency loss ratio, it caused the overall frequency loss ratio to decrease.

For the year ended December 31, 2010, total losses incurred on frequency contracts continued to increase as a result of increases in premiums earned as well as unfavorable loss development relating to our commercial motor liability

contracts that were placed into run-off in 2010. For the year ended December 31, 2010, frequency loss ratio increased to 68.9% from 56.6% in 2009, principally due to adverse losses on motor liability contracts.

We expect losses incurred on our severity business to be volatile from period to period. The loss ratios for our severity business were 25.4%, (4.3)%, and 51.2% for the years ended December 31, 2011, 2010 and 2009, respectively. The increase in the severity loss ratio for the year ended December 31, 2011, was primarily due to a full limit loss of \$5.0 million on a natural peril contract resulting from the 2011 New Zealand earthquake. Additionally, loss reserves relating to the 2010 New Zealand earthquake which were reported and recorded in 2011, also contributed to the increase in the severity loss ratio.

The negative severity loss ratio for the year ended December 31, 2010 was primarily due to the absence of any major catastrophe losses and, to a lesser extent, due to net favorable loss development on prior year severity contracts amounting to \$6.0 million. Prior year contracts with favorable development included a multi-year excess of loss professional liability contract, an excess of loss catastrophe contract, and a medical malpractice contract that was commuted during 2010 resulting in the reversal of severity loss reserves. Meanwhile, the largest severity losses incurred during 2010 related to adverse development of the 2008 California wildfires on a 2007 casualty clash contract, which increased our severity loss reserves by \$3.4 million.

Losses incurred can be further broken down into losses paid and changes in loss reserves. Losses incurred for the years ended December 31, 2011, 2010 and 2009 were comprised as follows:

	2011			2010			2009		
	Gross	Ceded	Net	Gross	Ceded	Net	Gross	Ceded	Net
	(\$ in thousands)								
Losses paid (recovered)	\$ 215,176	\$ (10,546)	\$ 204,630	\$ 135,767	\$ (3,169)	\$ 132,598	\$ 62,070	\$ (3,329)	\$ 58,741
Change in reserves	54,641	(17,581)	37,060	49,126	(4,706)	44,420	55,911	4,393	60,304
Total losses incurred	\$ 269,817	\$ (28,127)	\$ 241,690	\$ 184,893	\$ (7,875)	\$ 177,018	\$ 117,981	\$ 1,064	\$ 119,045

For the year ended December 31, 2011, the increase in ceded reserves of \$17.6 million was primarily related to the retrocession of multi-line frequency casualty contracts which experienced adverse loss development during 2011. To a lesser extent, the increase in ceded reserves was a result of new retroceded quota share contracts written during 2011 related to the Florida homeowners' inward contracts.



[Back to Table of Contents](#)

For the year ended December 31, 2010, the increase in ceded reserves of \$4.7 million was partially related to a retroceded 2010 multi-line stop-loss contract, which had a larger ceded reserve recorded due to the underlying contract's loss ratio breaching the loss corridor limit. The increase in ceded reserves was also partially related to a 2009 retroceded multi-line frequency casualty contract, which was impacted by an increase in earned premiums (and as a result, loss reserves) on a corresponding quota share inward contract.

For the year ended December 31, 2011, the losses incurred included \$26.0 million related to net adverse loss development on reserves relating to prior year contracts. During the year ended December 31, 2011, the net loss development on prior year contracts primarily related to the following:

Adverse loss development of \$15.7 million based on data received from the client and our reserve analysis relating to prior year commercial motor liability contracts that are in run-off. We received additional loss data from the client during 2011 that indicated higher than expected paid and incurred losses. During 2011, based on a review of the client's actual loss data and as part of our quarterly reserve analysis, we increased our loss reserves accordingly;

Adverse loss development of \$9.7 million, net of recoveries from related retroceded contracts, on multi-line quota share contracts based on data received from the clients and a reassessment in connection with our quarterly reserve analysis which indicated higher large loss activity on the accounts than originally expected;

Adverse loss development of \$1.6 million on Florida homeowners' contracts based on data received from the client and a reassessment in connection with our quarterly reserve analysis;

Favorable loss development of \$1.3 million relating to a specialty health contract based on data received from the client and a reassessment in connection with our quarterly reserve analysis;

Adverse loss development of \$1.0 million on a 2010 natural peril contract relating to the 2010 New Zealand earthquake. This loss development resulted from revised estimated losses expected to breach into our layer of coverage solely as a result of changes in foreign currency exchange rates for the New Zealand dollar and the Australian dollar against the U.S. dollar; and

Elimination of \$0.6 million of reserves on a professional liability excess of loss contracts, based on data received from the client and a reassessment in connection with our quarterly reserve analysis.

For the year ended December 31, 2010, the net losses incurred included \$8.7 million related to net adverse loss development on reserves relating to prior years. During the year ended December 31, 2010, the loss development on prior year contracts primarily related to the following:

Adverse loss development of \$15.4 million relating to prior year motor liability contracts, as a result of higher than expected paid and incurred losses included in the data received from the client. Based on a review of the client's actual loss data and a reassessment in connection with our quarterly reserve analysis, we increased our loss reserves accordingly.

Adverse loss development of \$3.4 million based on data received from the client and a reassessment in connection with our quarterly reserve analysis, relating to California wildfires on a 2007 casualty clash contract, resulting in losses being reserved at the full contract limit;

Adverse loss development of \$0.7 million on a 2008 professional liability excess of loss contract, based on data received from the client and a reassessment in connection with our quarterly reserve analysis;

Adverse loss development of \$0.6 million on a 2007 quota share motor contract, based on data received from the client and a reassessment in connection with our quarterly reserve analysis;

Favorable loss development of \$4.1 million on a multi-year professional liability excess of loss contract, based on data received from the client and a reassessment in connection with our quarterly reserve analysis;

Elimination of \$1.9 million of reserves held on a medical malpractice contract commuted during 2010;

Favorable loss development of \$1.8 million in aggregate, on two catastrophe contracts based on data received from the clients and a reassessment in connection with our quarterly reserve analysis;

Favorable loss development of \$1.4 million in aggregate, on two 2007 professional liability excess of loss contracts, based on data received from the clients and a reassessment in connection with our quarterly reserve analysis;

Favorable loss development of \$1.3 million in aggregate, on specialty health contracts relating to 2007 and 2008 years, based on data received from the clients and a reassessment in connection with our quarterly reserve analysis;

Favorable loss development of \$0.6 million on a 2008 clash contract, based on loss data received from the client and our quarterly reserve analysis; and

Favorable loss development of \$0.4 million on a 2008 multi-line frequency quota share contract, net of retrocession, based on loss data received from the client and a reassessment in connection with our quarterly reserve analysis.

For the year ended December 31, 2009, the losses incurred included \$7.6 million related to net favorable loss development on prior year contracts. During the year ended December 31, 2009, the loss development on prior year contracts primarily related to the following:

Favorable loss development of \$8.0 million on a 2006 Florida personal lines contract. During each quarter of 2009, the client reported favorable development of claims data resulting from lower than expected paid and incurred losses which impacted our own reserve analysis and correspondingly caused us to reduce our reserves by approximately \$8.0 million during the year ended December 31, 2009;

[Back to Table of Contents](#)

Favorable loss development of \$1.5 million on a 2008 motor liability contract. The reserves on this contract were adjusted in the fourth quarter of 2009 based on data received from the client as well as our own quarterly reserve analysis;

Favorable loss development of \$0.7 million on a 2008 severity medical malpractice contract based on our quarterly reserve analysis;

Favorable loss development of \$0.7 million on a 2008 workers' compensation contract. The reserves on this contract were adjusted in the fourth quarter of 2009 based on data received from the client as well as a reassessment in connection with our own quarterly reserve analysis;

Eliminating \$1.0 million of reserves, held on two casualty clash contracts which were commuted during the year ended December 31, 2009, without any reported losses;

Adverse loss development of \$3.4 million on a 2007 casualty clash contract resulting from claims relating to California wildfires; and

Adverse loss development of \$1.1 million on a 2007 health contract based on a reassessment in connection with our quarterly reserve analysis.

#### Acquisition Costs

Acquisition costs represent the amortization of commission and brokerage expenses incurred on contracts written as well as profit commissions and other underwriting expenses which are expensed when incurred. Deferred acquisition costs are limited to the amount of commission and brokerage expenses that are expected to be recovered from future earned premiums and anticipated investment income. Details of acquisition costs for the years ended December 31, are provided in the following table:

	2011		2010		2009	
	(\$ in thousands)					
Frequency	\$ 134,658	97.0%	\$ 95,052	92.6%	\$ 65,497	94.6%
Severity	4,093	3.0	7,593	7.4	3,735	5.4
Total	\$ 138,751	100.0%	\$ 102,645	100.0%	\$ 69,232	100.0%

Increased acquisition costs for the year ended December 31, 2011 compared to the same period for 2010 are consistent with the increases in premiums earned. For the years ended December 31, 2011, 2010 and 2009, the acquisition cost ratios for frequency business were 37.4%, 36.7% and 38.6%, respectively. We expect that acquisition costs will be higher for frequency business than for severity business. The acquisition cost ratios for severity business were 20.9%, 26.3% and 8.3% for the years ended December 31, 2011, 2010 and 2009, respectively.

For the year ended December 31, 2011, the increase in the frequency acquisition cost ratio was principally due to our Florida homeowners' contracts, which generally have high ceding commissions as a percentage of premiums compared to our other lines of business. Our Florida homeowners' contracts generally exclude, or significantly limit, catastrophe loss coverage. As a result, ceding insurers elect to separately purchase excess catastrophe reinsurance protection. However, premiums that we receive and earn are net of the reinsurance premiums paid by ceding insurers for their excess catastrophe reinsurance coverage. The commission rates on these policies are based on the gross premiums paid by the insured homeowner, but calculating these commissions as a percentage of net premiums results in an average commission rate higher than on our other lines of business. To illustrate, where the ceding insurer collects \$100 of gross premiums from the insured homeowner, pays \$30 for excess catastrophe reinsurance protection

and pays \$28 of commissions to agents, we would report premiums of \$70 and commissions of \$28, resulting in an acquisition cost ratio of 40%. The increase in the frequency acquisition cost ratio was partially offset by the downward adjustment of the sliding scale ceding commissions on the multi-line contracts due to adverse loss development during the year ended December 31, 2011.

For the year ended December 31, 2011, the decrease in severity acquisition cost and the severity acquisition cost ratio was primarily due to a multi-year professional liability excess of loss contract which expired during 2010 and was not renewed. During the year end December 31, 2010, we recorded a profit commission on this contract due to favorable loss development, which caused the acquisition cost expense and acquisition cost ratio to increase for the 2010 year. Subsequently, for the year ended December 31, 2011, no further profit commission was accrued resulting in a decrease in acquisition cost for the 2011 year. Under the terms of the contract, we withhold the profit commission which accrues interest until it is paid. The interest on the profit commission is included in acquisition cost expense since it is an expense directly related to this contract.

For the year ended December 31, 2010, the decrease in the frequency acquisition cost ratio was principally due to no further profit commissions expensed on a Florida homeowners' personal lines contract which commuted during 2010. This decrease was partially offset by the ceding commissions on the new Florida homeowners' personal lines contracts which are generally higher than the commissions on our other lines of business.

For the year ended December 31, 2010, the increase in severity acquisition cost and the severity acquisition cost ratio was primarily due to profit commissions recorded on a multi-year professional liability excess of loss contract due to favorable loss development during 2010. To a lesser extent, the increase was attributed to profit commissions on our new financial line and on a catastrophe contract which had favorable loss development during 2010.

#### General and Administrative Expenses

Our general and administrative expenses for the years ended December 31, 2011, 2010 and 2009 were \$13.9 million, \$16.2 million and \$19.0 million, respectively. For the year ended December 31, 2011, the decrease in general and administrative expenses related primarily to a decrease in employee bonus accruals as a result of a decrease in underwriting results, and to a lesser extent related to lower share based compensation expense for the year ended December 31, 2011. The decrease in share based compensation expense was primarily due to a \$1.1 million reversal of share based compensation expense relating to forfeited restricted shares and stock options upon retirement of our former chief executive officer. The decrease was partially offset by an increase in salaries and benefits expenses (excluding bonus) resulting from the addition of six new employees during 2011.

For the year ended December 31, 2010, the decrease in general and administrative expenses primarily related to a reduction in employee bonus accruals which resulted from adverse loss development negatively impacting the underwriting income, as well as due to a decrease in investment income accrued on the deferred bonus compensation relating to the 2008 and 2009 underwriting years, payable to the employees during 2011 and 2012, respectively. The decrease was partially offset by an increase in salaries and benefits expenses resulting from the addition of new staff during 2010.

General and administrative expenses for the years ended December 31, 2011, 2010 and 2009 include \$2.9 million, \$4.1 million and \$3.4 million, respectively, for the expensing of the fair value of stock options and restricted stock granted to employees and directors, net of forfeitures.

[Back to Table of Contents](#)

## Net Investment Income

A summary of net investment income for the years ended December 31, is as follows:

	2011	2010	2009
	(\$ in thousands)		
Realized gains (losses) and change in unrealized gains and losses, net	\$ 57,088	\$ 134,280	\$ 232,410
Interest, dividend and other income	17,528	18,969	17,038
Interest, dividend and other expenses	(30,837)	(22,939)	(16,886)
Investment advisor compensation	(20,661)	(26,304)	(32,701)
Net investment income	\$ 23,118	\$ 104,006	\$ 199,861

Investment income, net of all fees and expenses, resulted in a gain of 2.1% on our investment portfolio for the year ended December 31, 2011. This compares to a gain of 11.0% and a gain of 32.1% reported for the years ended December 31, 2010 and 2009, respectively. Investment returns are calculated monthly and compounded to calculate the annual returns. The resulting actual investment income may vary depending on cash flows into or out of the investment account. For the year ended December 31, 2011, the investment portfolio generated gains of 5.4% (before investment advisor fees) on the short portfolio including sovereign debt CDS, which were partially offset by losses of 1% (before investment advisor fees) on the long portfolio.

For the year ended December 31, 2011, included in investment advisor compensation was \$15.2 million (2010: \$13.4 million, 2009: \$10.8 million) relating to management fees paid to DME Advisors and \$5.4 million (2010: \$12.9 million, 2009: \$21.9 million) relating to performance allocation in accordance with the loss carry forward provision of the advisory agreement with DME Advisors. Given the net investment loss for the year ended December 31, 2008, no performance allocation was made to DME Advisors in 2008. In addition, based on the advisory agreement, the performance allocation for the subsequent years was reduced to 10% until all the investment losses from 2008 had been recouped and an additional investment income equal to 150% of the investment loss was earned. As of December 31, 2010, the loss carry forward balance was nil and the performance allocation rate reverted to 20% during December 2010 and remained unchanged for the year ended December 31, 2011.

Our investment advisor, DME Advisors, and its affiliates manage and expect to manage other client accounts besides ours, some of which have investment objectives similar to ours. To comply with regulation FD, our investment returns are posted on our website on a monthly basis. Additionally, on our website ([www.greenlightre.ky](http://www.greenlightre.ky)) we provide the names of the largest disclosed long positions in our investment portfolio as of the last date of the month of the relevant posting. DME Advisors may choose not to disclose certain positions to its clients in order to protect its investment strategy. Therefore, we present on our website the largest positions held by us that are disclosed by DME Advisors or its affiliates to their other clients.

## Income Taxes

We are not obligated to pay any taxes in the Cayman Islands on either income or capital gains. We have been granted an exemption by the Governor-in-Cabinet from any taxes that may be imposed in the Cayman Islands for a period of 20 years, expiring on February 1, 2025.

GRIL is incorporated in Ireland and, therefore, is subject to the Irish corporation tax. GRIL is taxed at a tax rate of 12.5% on its taxable trading income.

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 tax rate of 35%.

For the year ended December 31, 2011, a deferred tax asset of \$58,151 (2010: \$79,018), resulting solely from the temporary differences in recognition of expenses for tax purposes, was included in other assets on the consolidated balance sheets. At December 31, 2011, an accrual for current taxes payable of \$205,873 (2010: \$333,865) was recorded in other liabilities on the consolidated balance sheets. Based on the timing of the reversal of the temporary differences and likelihood of generating sufficient taxable income to realize the future tax benefit, management believes it is more likely than not that the deferred tax asset will be fully realized in the future and therefore no valuation allowance has been recorded. We have not taken any income tax positions that are subject to uncertainty or that are reasonably likely to have a material impact to the Company, GRIL or Verdant.

The following table sets forth our current and deferred income tax benefit (expense) on a consolidated basis for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
		(\$ in thousands)	
Current tax expense	\$ (226)	\$ (406)	\$ (20)
Deferred tax (expense) benefit	(21)	10	69
Income tax (expense) benefit	\$ (247)	\$ (396)	\$ 49

[Back to Table of Contents](#)

## Ratio Analysis

Due to the opportunistic and customized nature of our underwriting operations, we expect to report different loss and expense ratios in both our frequency and severity businesses from period to period. For the years ended December 31, 2011, 2010 and 2009, we reported the following ratios:

	2011			2010			2009		
	Frequency	Severity	Total	Frequency	Severity	Total	Frequency	Severity	Total
Loss ratio	65.7%	25.4%	63.6%	68.9%	(4.3)%	61.5%	56.6%	51.2%	55.4%
Acquisition cost ratio	37.4%	20.9%	36.5%	36.7%	26.3%	35.7%	38.6%	8.3%	32.3%
Composite ratio	103.1%	46.3%	100.1%	105.6%	22.0%	97.2%	95.2%	59.5%	87.7%
Internal expense ratio			3.7%			5.6 %			8.8 %
Combined ratio			%			%			%
			103.8			102.8			96.5

The loss ratio is calculated by dividing net loss and loss adjustment expenses incurred by net premiums earned. We expect that the loss ratio will be volatile for our severity business and may exceed that of our frequency business in certain periods. Given that we opportunistically underwrite a concentrated portfolio across several lines of business that have varying expected loss ratios, we can expect there to be significant annual variations in the loss ratios reported from our frequency business. In addition, the loss ratios for both frequency and severity business can vary depending on the lines of business written.

The acquisition cost ratio is calculated by dividing net acquisition costs by net premiums earned. This ratio demonstrates the higher acquisition costs incurred for our frequency business than for our severity business.

The composite ratio is the ratio of underwriting losses incurred, loss adjustment expenses and acquisition costs, excluding general and administrative expenses, to net premiums earned. Similar to the loss ratio, we expect that this ratio will be more volatile for our severity business depending on loss activity in any particular period.

The internal expense ratio is the ratio of all general and administrative expenses to net premiums earned. We expect our internal expense ratio to decrease as we continue to expand our underwriting operations.

The combined ratio is calculated as the sum of the composite ratio and the internal expense ratio. The combined ratio measures the total profitability of our underwriting operations and does not take net investment income or loss into account. Given the nature of our opportunistic underwriting strategy, we expect that our combined ratio may also be volatile from period to period.

## Financial Condition

## Investments, Financial Contracts Receivable, Financial Contracts Payable and Due to Prime Brokers

Our long investments (assets), comprised of debt instruments, listed and private equities, commodities and financial contracts receivable, were \$1,053.8 million as of December 31, 2011 compared to \$1,080.7 million as of December 31, 2010, a decrease of \$26.9 million, or 2.5%. During 2011, our listed equity securities, including exchange traded funds, increased by \$50.9 million, while our commodities (gold bullion) decreased by \$35.0 million. The decrease in our gold holdings was partially offset by an increase in the gold miners exchange traded funds. During the year ended

December 31, 2011, our financial contracts receivable decreased by \$22.5 million primarily due to the decreases in sovereign debt CDS, put options and the value of our interest rate options. During the year ended December 31, 2011, our financial contracts payable decreased by \$17.2 million primarily due to the disposal of CDS issued on corporate debt.

For the year ended December 31, 2011, our exposure to long investments decreased from 93% as of December 31, 2010, to 89% as of December 31, 2011, while our exposure to short investments decreased from 73% as of December 31, 2010 to 52% as of December 31, 2011. This exposure analysis is conducted on a notional basis and does not include gold, CDS, sovereign debt, cash, foreign currency derivatives, interest rate options and other macro positions.

From time to time, we incur indebtedness to our prime brokers to implement our investment strategy in accordance with our investment guidelines. As of December 31, 2011, we had borrowed \$4.3 million from our prime brokers in order to purchase investment securities, compared to \$54.4 million as of December 31, 2010. Additionally, as of December 31, 2011, included in due to prime brokers was \$256.1 million relating to collateral provided to our prime brokers for our letters of credit outstanding under term margin agreements, compared to \$218.7 million as of December 31, 2010. The increase in collateral for letters of credit was a result of additional letters of credit issued during the year ended December 31, 2011.

Our investment portfolio, including any derivatives, is valued at fair value and any unrealized gains or losses are reflected in net investment income in the consolidated statements of income. As of December 31, 2011, 86.3% (2010: 92.7%) of our investment portfolio (excluding restricted and unrestricted cash and cash equivalents) was comprised of investments valued based on quoted prices in actively traded markets (Level 1), 11.9% (2010: 4.8%) comprised of securities valued based on observable inputs other than quoted prices (Level 2) and 1.8% (2010: 2.5%) was comprised of securities valued based on non-observable inputs (Level 3).



[Back to Table of Contents](#)

In determining whether a market for a financial instrument is active or inactive, we obtain information from our investment advisor who makes the determination based on feedback from executing brokers, market makers, and in-house traders to assess the level of market activity and available liquidity for any given financial instrument. Where a financial instrument is valued based on broker quotes, DME Advisors requests multiple quotes. The ultimate value is based on an average of the quotes obtained. Broker quoted prices are generally not adjusted in determining the ultimate values and are obtained with the expectation of the quotes being binding. As of December 31, 2011, \$182.8 million (2010: \$98.6 million) of our investments were valued based on broker quotes, of which \$174.9 million (2010: \$72.1 million) were based on observable market information and classified as Level 2 fair value measurements, and \$7.9 million (2010: \$26.5 million) were based on non-observable inputs and classified as Level 3 fair value measurements.

For the year ended December 31, 2011, certain of our equity securities which were previously unlisted, began trading on US exchanges and, as a result, we were able to determine fair values of these securities based on quoted prices in active markets. Therefore, we transferred securities with a fair value of \$9.7 million, on the date of transfer, from Level 3 to Level 1 fair value measurements. There were no other transfers between Level 1, Level 2 or Level 3 fair value measurements during 2011.

For the year ended December 31, 2010, we transferred, from Level 1 to Level 2, an equity security for which a quoted price on an active market was not available and as a result we relied on broker quotes to determine the fair value. There were no other transfers between Level 1, Level 2 or Level 3 fair value measurements during the year ended December 31, 2010. The increase in our Level 3 investments for the year ended December 31, 2010, was primarily due to private equity investments purchased during the year.

Non-observable inputs used by our investment advisor include discounted cash flow models for valuing certain corporate debt instruments. In addition, other non-observable inputs include the use of investment manager statements and management estimates based on third party appraisals of underlying assets for valuing private equity investments.

**Restricted Cash and Cash Equivalents; Securities Sold, Not Yet Purchased**

Short securities were \$683.8 million as of December 31, 2011 compared to \$726.0 million as of December 31, 2010, a decrease of \$42.2 million. The decrease was primarily a result of exiting several short positions in equities and exchange traded funds, and was partially offset by the increase in short positions in non-U.S sovereign debt. During the year ended December 31, 2011, we reduced our CDS exposure in sovereign debt and increased our short position in non-U.S. sovereign debt.

Restricted cash totaled \$957.5 million as of December 31, 2011 compared to \$977.3 million as of December 31, 2010, a decrease of \$19.8 million, or 2.0%. The decrease in restricted cash as of December 31, 2011, was principally due to the decrease in our short securities for which less cash and cash equivalents were pledged as collateral. The cash held by swap counterparties also decreased \$14.9 million due to the decrease in our financial contracts as we disposed the CDS issued for corporate debt and reduced the CDS purchased for sovereign debt. Under some of our letters of credit facility agreements, we pledge investment securities to borrow cash from the prime brokers and place the cash in custodial accounts in our name. The cash in the custodial accounts is used to provide collateral for letters of credit issued under the agreements. As a result, restricted cash at December 31, 2011, included \$256.1 million (2010: 218.7 million) of cash collateral relating to letters of credit issued.

**Reinsurance Balances Receivable; Deferred Acquisition Costs, Net**

At December 31, 2011, reinsurance balances receivable were \$141.3 million compared to \$109.6 million as of December 31, 2010, an increase of \$31.7 million, or 28.9%. The increase in the reinsurance balances receivable

relates primarily to increases in premiums on several quota share frequency contracts. The entire reinsurance balance receivable is considered current and collectible and therefore no provision for uncollectible balances was recorded at December 31, 2011.

At December 31, 2011, deferred acquisition costs (net of retrocession) decreased by \$18.7 million, or 21.4%, compared to December 31, 2010. These decreases were primarily due to the commutation of a Florida homeowners' contract during the year. To a lesser extent, the decrease was a result of a new retroceded contract relating to Florida homeowners' insurance entered during the year. We evaluate 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. As of December 31, 2011, we believe that the deferred acquisition costs were fully recoverable and no premium deficiency loss was recorded.

#### Loss and Loss Adjustment Expense Reserves; Loss and Loss Expenses Recoverable

Reserves for loss and loss adjustment expenses as of December 31, 2011 and 2010 were comprised of the following:

	December 31, 2011			December 31, 2010		
	Case Reserves	IBNR	Total	Case Reserves	IBNR	Total
	(\$ in thousands)					
Frequency	\$ 85,186	\$ 117,850	\$ 203,036	\$ 59,216	\$ 87,504	\$ 146,720
Severity	18,136	20,107	38,243	18,114	21,633	39,747
Total	\$ 103,322	\$ 137,957	\$ 241,279	\$ 77,330	\$ 109,137	\$ 186,467

The increase in loss reserves is partially due to the frequency underwriting portfolio continuing to mature, resulting in an increase in case reserves as losses are reported by our clients, and partially due to unfavorable loss development on certain contracts as discussed above (see Losses Incurred). For most of the contracts written as of December 31, 2011, our risk exposure is limited by defined limits of liability on these contracts. Once the loss limit for a contract has been reached, we have no further exposure to additional losses from that contract. However, certain contracts, particularly quota share contracts which relate to first dollar exposure, may not contain aggregate limits.

[Back to Table of Contents](#)

Our severity business includes contracts that contain or may contain natural peril loss exposure. As of January 31, 2012, our maximum aggregate loss exposure to any series of natural peril events was \$98.6 million. For purposes of the calculation, aggregate loss exposure is equal to the difference between the aggregate limits available in the contracts that contain natural peril exposure minus reinstatement premiums for the same contracts. We categorize peak zones as: United States, Europe, Japan and the rest of the world. The following table provides single event loss exposure and aggregate loss exposure information for the peak zones of our natural peril coverage as of January 31, 2012:

Zone	Single Event Loss	Aggregate Loss
	(\$ in thousands)	
United States (1)	\$ 70,627	\$ 98,577
Europe	38,300	39,500
Japan	39,500	39,500
Rest of the world	20,000	20,000
Maximum aggregate	70,627	98,577

(1) Includes the Caribbean

Our natural peril loss exposure presented above excludes the impact of any potential recoveries from retrocessionaires or swap counterparties relating to natural peril events. We have currently entered into a weather derivative swap contract whereby upon the occurrence of certain specified earthquake events in the United States we would recover a maximum amount of \$10.0 million.

For the year end December 31, 2011, loss and loss expenses recoverable increased by \$17.8 million, or 148.5%, principally due to the increase in losses recoverable on our prior year multi-line retroceded contracts which experienced adverse loss development as a result of an increase in large losses on the corresponding assumed quota share contracts.

## Liquidity and Capital Resources

### General

We are organized as a holding company with no operations of our own. As a holding company, we have minimal continuing cash needs, most of which are principally related to the payment of administrative expenses. All of our underwriting operations are conducted through our wholly-owned reinsurance subsidiaries, Greenlight Re and GRIL, which underwrite risks associated with our property and casualty reinsurance programs. There are restrictions on each of Greenlight Re's and GRIL's ability to pay dividends which are described in more detail below. It is our current policy to retain earnings to support the growth of our business. We currently do not expect to pay dividends on our ordinary shares.

As of December 31, 2011, Greenlight Re was rated "A (Excellent)" with a stable outlook, while GRIL was rated "A- (Excellent)" with a stable outlook by A.M. Best. The ratings reflect A.M. Best's opinion of our reinsurance subsidiaries' financial strength, operating performance and ability to meet obligations and it is not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our Class A ordinary shares.

### Sources and Uses of Funds

Our sources of funds primarily consist of premium receipts (net of brokerage and ceding commissions) and investment income (net of advisory compensation and investment expenses), including realized gains, and other income. We use cash from our operations to pay losses and loss adjustment expenses, profit commissions and general and administrative expenses. Substantially all of our funds, including shareholders' capital, net of funds required for cash liquidity purposes, are invested by DME Advisors in accordance with our investment guidelines. As of December 31, 2011, approximately 86.8% of our investments were comprised of publicly traded equity securities, actively traded debt instruments and gold bullion, which can all be readily liquidated to meet current and future liabilities. As of December 31, 2011, the majority of our investments were valued based on quoted prices in active markets for identical assets (Level 1). Given our value-oriented long and short investment strategy, if equity markets decline, we expect the obligations for covering short positions to decline as well. Any reduction in our short portfolio would reduce the need for restricted cash and thereby would free our cash to be used for any purpose. Additionally, since the majority of our invested assets are liquid, even in distressed markets, we believe securities can be sold or covered to generate cash to pay claims. Since we classify our investments as "trading", we book all gains and losses (including unrealized gains and losses) on all our investments (including derivatives) in our consolidated statements of income for each reporting period.

For the year ended December 31, 2011, we used \$26.4 million in cash from operations relating to our underwriting activities including claim payments on quota share contracts on our maturing book of business. We generated \$23.2 million of cash from investing activities as a result of the net sale of investments and financial contracts. We generated no significant cash from financing activities during the year ended December 31, 2011. For the year ended December 31, 2010, we generated \$38.5 million in cash from operations mainly as a result of increased underwriting activities, used \$24.7 million for net purchase of investments, and generated no significant cash from financing activities.

As of December 31, 2011, we believe that we have sufficient cash flow from operations to meet our foreseeable liquidity requirements. We expect that our operational needs for liquidity will be met by cash, funds generated from underwriting activities and investment income, including realized gains. We have no current plans to issue debt and expect to fund our operations for the next 12 months from operating cash flow. However, we cannot provide assurances that in the future we will not incur indebtedness to implement our business strategy, pay claims or make acquisitions.

Although we are not subject to any significant legal prohibitions on the payment of dividends, Greenlight Re and GRIL are each subject to regulatory minimum capital requirements and regulatory constraints that affect its ability to pay dividends to us. In addition, any dividend payment would have to be approved by the relevant regulatory authorities prior to payment. As of December 31, 2011, Greenlight Re and GRIL both exceeded the regulatory minimum capital requirements.

[Back to Table of Contents](#)

## Letters of Credit

As of December 31, 2011, neither Greenlight Re nor GRIL was licensed or admitted as a reinsurer in any jurisdiction other than the Cayman Islands and the European Economic Area, respectively. Because many jurisdictions do not permit domestic insurance companies to take credit on their statutory financial statements unless appropriate measures are in place for reinsurance obtained from unlicensed or non-admitted insurers, we anticipate that all of our U.S. clients and some of our non-U.S. clients will require us to provide collateral through funds withheld, trust arrangements, letters of credit or a combination thereof.

As of December 31, 2011, we had four letter of credit facilities (2010: three) totaling \$760.0 million (2010: \$560.0 million) with various financial institutions. See Note 14 of the accompanying consolidated financial statements for details on each of these facilities. As of December 31, 2011, an aggregate amount of \$382.8 million (December 31, 2010: \$339.9 million) in letters of credit was issued from these facilities. Under the letter of credit facilities, we provide collateral that may consist of equity securities, restricted cash, and cash equivalents. As of December 31, 2011, total equity securities, restricted cash, and cash equivalents with a fair value in the aggregate of \$410.5 million (December 31, 2010: \$349.6 million) were pledged as security against the letters of credit issued.

The amount of collateral, currently in the form of letters of credit, posted for the benefit of our clients is based on the specific collateral requirement as stated in each reinsurance contract. For U.S. clients, the amount of letters of credit required is typically equal to the client's reinsurance losses recoverable including IBNR losses plus unearned premium reserves that a client books for statutory purposes on each contract. These balances need to be collateralized in order for the client to receive statutory credit for its reinsurance assets, which is standard practice in the reinsurance industry. Alternatively, the amount of collateral posted to a client may be a fixed negotiated amount.

Once letters of credit are issued to our clients, the minimum amount of assets that we pledge to our letter of credit providers depends upon the requirements stated in the specific letter of credit facility agreement. The amount of pledged assets required depends on the specific investment instrument that we transfer to the pledge account. The amount of credit that is given on the pledged assets depends on the type of instrument and the exchange on which that instrument is traded. For example, under the terms of the letter of credit facility with Butterfield Bank (Cayman) Limited, if we pledge an equity security that is traded on the New York Stock Exchange, we receive a fixed percentage credit for the market value of such a security. If the market value of these securities were to decline, we would be obligated to pledge additional assets. Conversely, if the market value of these securities increased, we would be entitled to withdraw any excess pledged assets from the account if we so choose. The ultimate amount of pledged assets posted is simply the value of securities held in a designated pledge account, which may be greater than the minimum required.

Each of the facilities contains various covenants that, in part, restrict Greenlight Re's ability to place a lien or charge on the pledged assets and further restrict Greenlight Re's ability to issue 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 agreements, Greenlight Re will be prohibited from paying dividends to Greenlight Capital Re. For the year ended December 31, 2011, the Company was in compliance with all of the covenants under each of these facilities.

## Capital

Our capital structure currently consists entirely of equity issued in two separate classes of ordinary shares. We expect that existing capital base and internally generated funds will be sufficient to implement our business strategy. Consequently, we do not presently anticipate that we will incur any material indebtedness in the ordinary course of our business. In order to provide us with additional flexibility and timely access to public capital markets should we require additional capital for working capital, capital expenditures, acquisitions and other general corporate purposes,

we filed a Form S-3 registration statement for an aggregate principal amount of \$200.0 million in securities, which was declared effective by the SEC on July 10, 2009, and expires in July 2012 unless renewed. We did not make any significant commitments for capital expenditures during the period ending December 31, 2011.

The Board has adopted a share repurchase plan authorizing management to repurchase up to 2.0 million Class A ordinary shares. We may from time to time repurchase shares to optimize our capital structure. Shares may be purchased in the open market or through privately negotiated transactions. The timing of such repurchases and actual number of shares repurchased will depend on a variety of factors including price, market conditions and applicable regulatory and corporate requirements. The plan, which expires on June 30, 2012, does not require us to repurchase any specific number of shares and may be modified, suspended or terminated at any time without prior notice. During the year ended December 31, 2011, we did not purchase any Class A ordinary shares, and as of December 31, 2011, we had repurchased 228,900 shares under the share repurchase plan.

On April 28, 2010, our shareholders approved an amendment to our stock incentive plan to increase the number of Class A ordinary shares available for issuance from 2.0 million to 3.5 million. At December 31, 2011, there were 1,322,773 Class A ordinary shares available for future issuance.

On September 26, 2011, A.M. Best upgraded the rating for our reinsurance subsidiary, Greenlight Re from "A- (Excellent)" to "A (Excellent)" and reaffirmed the "A- (Excellent)" rating for GRIL. These ratings reflect the rating agency's opinion of our reinsurance subsidiaries' financial strength, operating performance and ability to meet obligations. If an independent rating agency downgrades our ratings below "A- (Excellent)" or withdraws our rating, we could be severely limited or prevented from writing any new reinsurance contracts, which would significantly and negatively affect our business. Insurer financial strength ratings are based upon factors relevant to policyholders and are not directed toward the protection of investors. Our A.M. Best ratings may be revised or revoked at the sole discretion of the rating agency.

[Back to Table of Contents](#)

## Contractual Obligations and Commitments

The following table shows our aggregate contractual obligations by time period remaining to due date as of December 31, 2011:

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
	(\$ in thousands)				
Operating lease obligations (1)	\$ 372	\$ 744	\$ 684	\$ 415	\$ 2,215
Specialist service agreement	734	550	—	—	1,284
Private equity and limited partnerships (2)	19,079	—	—	—	19,079
Loss and loss adjustment expense reserves (3)	109,000	96,288	28,887	7,104	241,279
<b>Total</b>	<b>\$ 129,185</b>	<b>\$ 97,582</b>	<b>\$ 29,571</b>	<b>\$ 7,519</b>	<b>\$ 263,857</b>

(1) Reflects our contractual obligations pursuant to the lease agreements as described below.

(2) As of December 31, 2011 we have made total commitments of \$41.2 million in private investments, of which we have invested \$22.1 million, and our remaining commitments to these investments total \$19.1 million. Given the nature of the private equity investments, we are unable to determine with any degree of accuracy on when the commitments will be called. As such, for the purposes of the above table, we have assumed that all commitments with no fixed payment schedule will be made within one year. Under our investment guidelines, in effect as of the date hereof, no more than 10% of the assets in the investment portfolio may be held in private equity securities without specific approval from the Board of Directors.

(3) Due to the nature of our reinsurance operations, the amount and timing of the cash flows associated with our reinsurance contractual liabilities will fluctuate, perhaps materially, and, therefore, are highly uncertain.

GLRE has entered into a ten year lease agreement for office space in the Cayman Islands with the option to renew for an additional five year term. The lease term is effective from July 1, 2008 and ends on September 30, 2018. Under the terms of the lease agreement, our minimum annual rent payments are \$253,539 for the first three years, increasing by 3% thereafter each year to reach \$311,821 by the tenth year. The minimum lease payment obligations are included in the above table under operating lease obligations and in Note 14 to the accompanying consolidated financial statements.

GRIL has entered into a lease agreement for office space in Dublin, Ireland. Under the terms of this lease agreement, GRIL is committed to average annual rent payments denominated in Euros approximating €67,528 per annum until May 2016 (net of rent inducements), and adjusted to the prevailing market rates for each of the three subsequent five-year terms. GRIL has the option to terminate the lease agreement in 2016 and 2021. The minimum lease payment obligations are included in the above table under operating lease obligations and in Note 14 to the accompanying consolidated financial statements.

We have entered into a service agreement with a specialist service provider for the provision of administration and support in developing and maintaining business relationships, reviewing and recommending programs and managing risks relating to certain specialty lines of business. The specialist service provider does not have any authority to bind us to any reinsurance contracts. Under the terms of the agreement, we have committed to quarterly payments to the specialist service provider. If the agreement is terminated, we are obligated to make minimum payments for another two years to ensure that any contracts to which we are bound are adequately administered by the specialist service

provider. The minimum payments are included in the above table under specialist service agreement and in Note 14 to the accompanying consolidated financial statements.

On January 1, 2008, we entered into an agreement, as amended on February 20, 2009, wherein the Company and DME Advisors agreed to create a joint venture for the purposes of managing certain jointly held assets. This agreement was amended effective August 31, 2010 to include GRIL as a participant to the agreement. The term of the amended agreement is August 31, 2010 through December 31, 2013 with automatic three-year renewals unless 90 days prior to the end of the then current term, either DME Advisors terminates the agreement or any of the participants notifies DME Advisors of its desire to withdraw from the agreement. Pursuant to this agreement, we pay a monthly management fee of 0.125% on our share of the assets managed by DME Advisors and a performance allocation of 20% on the net investment income of the Company's share of assets managed by 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 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, 2010, \$9.4 million of the performance compensation was calculated using the reduced rate of 10% and \$3.5 million was calculated using the full rate of 20%. For the year ended December 31, 2011, the entire performance compensation of \$5.4 million was calculated using a rate of 20%.

In February 2007, we entered into a service agreement with DME Advisors, pursuant to which DME Advisors will provide investor relations services to us for compensation of \$5,000 per month plus expenses. The agreement is automatically renewed on an annual basis until terminated by us or DME Advisors for any reason with 30 days prior written notice to the other party.



[Back to Table of Contents](#)

#### Off-Balance Sheet Financing Arrangements

We have no obligations, assets or liabilities, other than those derivatives in our investment portfolio and those disclosed in the consolidated financial statements, which would be considered off-balance sheet arrangements. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements.

#### Effects of Inflation

We consider the effects of inflation in our pricing and estimating loss and loss adjustment expense reserves. The actual effects of inflation on our results of operations cannot be accurately known until claims are ultimately settled. For the years ended December 31, 2011, 2010 and 2009, inflation had no significant impact on our revenues or net income. We do not believe that inflation has had or will have a material effect on our combined results of operations, except insofar as inflation may affect interest rates and the asset values in our investment portfolio.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe that we are principally exposed to the following types of market risk:

equity price risk;

foreign currency risk;

interest rate risk;

credit risk; and

political risk

#### Equity Price Risk

As of December 31, 2011, our investment portfolio consisted primarily of long and short equity securities, along with certain equity-based derivative instruments, the carrying values of which are primarily based on quoted market prices. Generally, market prices of common equity securities are subject to fluctuation, which could cause the amount to be realized upon the closing of the position to differ significantly from their current reported value. This risk is partly mitigated by the presence of both long and short equity securities. As of December 31, 2011, a 10% decline in the price of each of these listed equity securities and equity-based derivative instruments would result in a \$37.2 million, or 3.4%, decline in the fair value of the total investment portfolio.

Computations of the prospective effects of hypothetical equity price changes are based on numerous assumptions, including the maintenance of the existing level and composition of investment securities and should not be relied on as indicative of future results.

#### Foreign Currency Risk

Certain of our reinsurance contracts provide that ultimate losses may be payable in foreign currencies depending on the country of original loss. Foreign currency exchange rate risk exists to the extent that there is an increase in the exchange rate of the foreign currency in which losses are ultimately owed. As of December 31, 2011, we had no

reported losses payable in foreign currencies. However, we are exposed to fluctuations in foreign currencies on certain worldwide catastrophe aggregate loss contracts where the thresholds for losses entering into our layers of coverage are denominated in U.S. dollars. The underlying losses on these contracts are determined by the insurer in its local currency, and changes in currency exchange rates may result in aggregated losses that were not previously expected to attach to our layer, subsequently breaching into our coverage layer. As of December 31, 2011, we estimated that a 10% decrease in the U.S. dollar against both the New Zealand dollar and the Australian dollar (all else being constant) would result in additional estimated loss reserves of \$0.6 million on an aggregate loss contract. Alternatively, a 10% increase in the U.S. dollar against both the New Zealand dollar and the Australian dollar, would result in a reduction of \$1.0 million in our recorded loss reserves.

While we do not seek to specifically match our liabilities under reinsurance policies that are payable in foreign currencies with investments denominated in such currencies, we continually monitor our exposure to potential foreign currency losses and would consider the use of forward foreign currency exchange contracts in an effort to mitigate against adverse foreign currency movements.

[Back to Table of Contents](#)

Through cash, forwards, options and investments in securities denominated in foreign currencies, we are also exposed to foreign currency risk. Foreign currency exchange rate risk is the potential for adverse changes in the U.S. dollar value of investments (long and short), speculative foreign currency options and cash positions due to a change in the exchange rate of the foreign currency in which cash and financial instruments are denominated. As of December 31, 2011, some of our currency exposure resulting from foreign denominated securities (longs and shorts) was reduced by offsetting cash balances (shorts and longs) denominated in the corresponding foreign currencies.

The following table summarizes the net impact that a 10% increase and decrease in the value of the United States dollar against select foreign currencies would have on the value of our investment portfolio as of December 31, 2011:

Foreign Currency	10% increase in U.S. dollar		10% decrease in U.S. dollar	
	Change in fair value of net investment portfolio	Change in fair value as % of net investment portfolio	Change in fair value of net investment portfolio	Change in fair value as % of net investment portfolio
	(\$ in thousands)			
British Pounds	\$ (423)	0.0%	\$ 423	0.0%
Danish Kroner	116	0.0	(116)	0.0
Euro Dollar	8,755	0.8	(3,220)	(0.3)
Japanese Yen	15,108	1.4	(5,313)	(0.5)
Norwegian Krone	(108)	0.0	108	0.0
South Korean Won	(267)	0.0	267	0.0
Swiss Franc	431	0.0	(431)	0.0
Other	(30)	0.0	30	0.0
Total	\$ 23,582	2.2%	\$ (8,252)	(0.8)%

Computations of the prospective effects of hypothetical currency price changes are based on numerous assumptions, including the maintenance of the existing level and composition of investment in securities denominated in foreign currencies and related hedges, and should not be relied on as indicative of future results.

### Interest Rate Risk

Our investment portfolio includes interest rate sensitive securities, such as corporate and sovereign debt instruments, CDS, and interest rate options. The primary market risk exposure for any debt instrument is interest rate risk. As interest rates rise, the market value of our long fixed-income portfolio would fall, and the opposite would be true if interest rates fell. Our short fixed-income portfolio would benefit from rising interest rates and be negatively impacted from falling interest rates. Additionally, some of our derivative investments may also be interest rate sensitive and their value may indirectly fluctuate with changes in interest rates.

The following table summarizes the impact that a 100 basis point increase and decrease in interest rates would have on the value of our net investment portfolio as of December 31, 2011:

	100 basis point increase in interest rates		100 basis point decrease in interest rates	
	Change in fair value of net investment portfolio	Change in fair value as % of net investment portfolio	Change in fair value of net investment portfolio	Change in fair value as % of net investment portfolio

				investment portfolio
		(\$ in thousands)		
Debt instruments - long	\$ (275)	0.0%	\$ 293	0.0%
Debt instruments - short	10,531	1.0	(11,563)	(1.1)
Credit default swaps	58	0.0	(58)	0.0
Interest rate options	3,567	0.3	(1,616)	(0.1)
Futures	10,199	0.9	(11,095)	(1.0)
Net exposure to interest rate risk	\$ 24,080	% 2.2	) \$ (24,039	)% (2.1

### Credit Risk

We are exposed to credit risk primarily from the possibility that counterparties may default on their obligations to us. The amount of the maximum exposure to credit risk is indicated by the carrying value of our financial assets including notes receivable. Our notes receivable are due from parties whom we consider our strategic partners and we evaluate their financial condition and monitor our exposure to them on a regular basis.

In addition, the securities, commodities, and cash in our investment portfolio are held with several prime brokers, subjecting us to the related credit risk from the possibility that one or more of them may default on their obligations to us. We closely and regularly monitor our concentration of credit risk with each prime broker, and if necessary, transfer cash or securities between prime brokers to diversify and mitigate our credit risk. Other than our investment in derivative contracts and corporate debt, if any, and the fact that our investments and majority of cash balances are held by prime brokers on our behalf, we have no significant concentrations of credit risk.

### Political Risk

We are exposed to political risk to the extent that DME Advisors, on our behalf and subject to our investment guidelines, trade securities that are listed on various U.S. and foreign exchanges and markets. The governments in any of these jurisdictions could impose restrictions, regulations or other measures, which may have a material adverse impact on our investment strategy. We are not currently exposed to political risk coverage on our insurance contracts, however, changes in government laws and regulations may impact our underwriting operations (see Item 1A "Risk Factors").

[Back to Table of Contents](#)

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to this Item is set forth under Item 15.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements with any accountants regarding accounting and financial disclosure for the period since the Company's incorporation on July 13, 2004 through the date of this filing.

### ITEM 9A. CONTROLS AND PROCEDURES

As required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, the Company has evaluated, with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the effectiveness of its disclosure controls and procedures (as defined in such rules) as of the end of the period covered by this report. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures will prevent all errors and all frauds. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events. Accordingly, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

### Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the fourth quarter of the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company continues to review its disclosure controls and procedures, including its internal controls over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company's systems evolve with its business.

## Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on its financial statements.

[Back to Table of Contents](#)

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time. Our system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Our management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our system of internal control over financial reporting was effective as of December 31, 2011. The effectiveness of our internal control over financial reporting has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

This item is omitted because a definitive proxy statement that involves the election of directors will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulations 14A, which proxy statement is incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

This item is omitted because a definitive proxy statement that involves the election of directors will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulations 14A, which proxy statement is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

This item is omitted because a definitive proxy statement that involves the election of directors will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulations 14A, which proxy statement is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

This item is omitted because a definitive proxy statement that involves the election of directors will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulations 14A, which proxy statement is incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

This item is omitted because a definitive proxy statement that involves the election of directors will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulations 14A, which proxy statement is incorporated by reference.





[Back to Table of Contents](#)

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

	Page
(a)(1) Financial Statements	
<u>Report of Independent Registered Public Accounting Firm (on internal control over financial reporting)</u>	F-1
<u>Report of Independent Registered Public Accounting Firm (on the consolidated financial statements)</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2011 and 2010</u>	F-3
<u>Consolidated Statements of Income for the Years Ended December 31, 2011, 2010 and 2009</u>	F-4
<u>Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2011, 2010 and 2009</u>	F-5
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009</u>	F-6
<u>Notes to the Consolidated Financial Statements</u>	F-7
(a)(2) Financial Statement Schedules	
<u>Schedule I – Summary of Investments — Other Than Investments in Related Parties</u>	F-29
<u>Schedule II – Condensed Financial Information of Registrant</u>	F-30
<u>Schedule III – Supplementary Insurance Information</u>	F-32
<u>Schedule IV – Supplementary Reinsurance Information</u>	F-32

[Back to Table of Contents](#)

EXHIBIT INDEX

Exhibit

Number Description of Exhibit

- 3.1 Third Amended and Restated Memorandum and Articles of Association as revised by special resolution on July 10, 2008. (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q filed on August 7, 2008)
- 4.1 Form of Specimen Certificate of Class A ordinary shares (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement No. 333-139993)
- 4.2 Share Purchase Option, dated August 11, 2004, by and between the Registrant and First International Capital Holdings, Ltd. (incorporated by reference to Exhibit 4.2 of the Company's Registration Statement No. 333-139993)
- 10.1 Form of Securities Purchase Agreement for Class A ordinary shares by and between the Registrant and each of the subscribers thereto (incorporated by reference to Exhibit 10.2 of the Company's Registration Statement No. 333-139993)
- 10.2 Greenlight Capital Re, Ltd. Third Amended and Restated 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.19 of the Company's Registration Statement No. 333-139993)
- 10.3 Form of Restricted Stock Award Agreement by and between the Registrant and the Grantee (incorporated by reference to Exhibit 10.6 of the Company's Registration Statement No. 333-139993)
- 10.4 Form of Stock Option Agreement (incorporated by reference to Exhibit 10.7 of the Company's Registration Statement No. 333-139993)
- 10.5 Greenlight Capital Re, Ltd. Form of Directors' Restricted Stock Award (incorporated by reference to Exhibit 10.20 of the Company's Registration Statement No. 333-139993)
- 10.6 Greenlight Capital Re, Ltd. Form of Employees' Restricted Stock Award (incorporated by reference to Exhibit 10.21 of the Company's Registration Statement No. 333-139993)
- 10.7 Form of Shareholders' Agreement, dated August 11, 2004, by and among the Registrant and each of the subscribers (incorporated by reference to Exhibit 10.8 of the Company's Registration Statement No. 333-139993)
- 10.8 Form of Deed of Indemnity between the Registrant and each of its directors and certain of its officers (incorporated by reference to Exhibit 10.11 of the Company's Registration Statement No. 333-139993)
- 10.9 Amended and Restated Employment Agreement, dated as of December 30, 2008, by and among Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd. And Tim Courtis (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on January 2, 2009)
- 10.10 Concurrent Private Placement Stock Purchase Agreement for Class B Ordinary Shares, dated January 11, 2007, by and between the Registrant and David Einhorn (incorporated by reference to Exhibit 10.16 of the Company's Registration Statement No. 333-139993)
- 10.11 Service Agreement, dated as of February 21, 2007 between DME Advisors, LP and Greenlight Capital Re, Ltd. (incorporated by reference to Exhibit 10.17 of the Company's Registration Statement No. 333-139993)
- 10.12 Amendment No. 1, dated February 18, 2009, to the Amended and Restated Employment Agreement, dated as of December 30, 2008, by and among Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd. And Tim Courtis (incorporated by reference to Exhibit 10.26 of the Company's Form 10-K filed on February 23, 2009)
- 10.13 Letter of Credit Agreement executed July 21, 2009 between Greenlight Reinsurance, Ltd. and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on November 2, 2009)
- 10.14 Greenlight Capital Re, Ltd. Amended and Restated 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on May 4, 2010)
- 10.15 Amended and restated letter of credit agreement executed June 17, 2010 between Greenlight Reinsurance, Ltd. and Butterfield Bank (Cayman) Limited (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on August 2, 2010)
- 10.16 Amended letter of credit agreement executed June 14, 2010 between Greenlight Reinsurance, Ltd. and Bank of America, N.A (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q filed August 2, 2010)

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- 10.17 Letter of understanding dated June 10, 2010 between Greenlight Reinsurance, Ltd. and Citibank, N.A (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on August 2, 2010)
- 10.18 Letter of Credit Agreement, dated August 20, 2010, between Greenlight Reinsurance, Ltd. and Citibank Europe plc. (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on November 2, 2010)
- 10.19 Master Reimbursement Agreement dated August 20, 2010, between Greenlight Reinsurance, Ltd. and Citibank Europe plc (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q filed on November 2, 2010)
- 10.20 Reinsurance Deposit Agreement, dated August 20, 2010, between Greenlight Reinsurance, Ltd. and Citibank Europe plc. (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on November 2, 2010)
- 10.21 Amended and Restated Agreement, effective as of August 31, 2010, between Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd., Greenlight Reinsurance Ireland, Ltd., and DME Advisors, LP (incorporated by reference to Exhibit 10.4 of the Company's Form 10-Q filed on November 2, 2010)
- 10.22 Letter of Credit Agreement effective as of February 3, 2011, between Greenlight Reinsurance, Ltd. and JPMorgan Chase Bank N.A. (incorporated by reference to Exhibit 10.38 of the Company's Form 10-K filed on February 22, 2011)
- 10.23 Employment Agreement, dated July 27, 2011, by and among Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd. and Barton Hedges (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on October 31, 2011)
- 10.24 Employment Agreement, dated August 15, 2006, by and among Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd. and Brendan Barry
- 10.25 Employment Agreement, dated September 28, 2006, by and among Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd. and Claude Wagner
- 10.26 Amendment to amended letter of credit agreement executed on December 16, 2011 between Greenlight Reinsurance, Ltd. and Bank of America, N.A.
- 10.27 Amended letter of credit agreement effective as of December 16, 2011, between Greenlight Reinsurance, Ltd. and JPMorgan Chase Bank N.A.
- 12.1 Ratio of earnings to fixed charges and preferred share dividends
- 21.1 Subsidiaries of the registrant (incorporated by reference to Exhibit 21.1 of the Company's Form 10-K filed on February 22, 2011)
- 23.1 Consent of BDO USA, LLP
- 31.1 Certification of the Chief Executive Officer of Greenlight Capital Re, Ltd. filed herewith pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer of Greenlight Capital Re, Ltd. filed herewith pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Chief Executive Officer of Greenlight Capital Re, Ltd. filed herewith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of the Chief Financial Officer of Greenlight Capital Re, Ltd. filed herewith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Shareholders' Equity; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to Consolidated Financial Statements. (\*)

\* The XBRL related information in Exhibits 101 to this Annual Report on Form 10-K shall not be deemed "filed" or a part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of those sections.



[Back to Table of Contents](#)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GREENLIGHT CAPITAL RE, LTD.

By:/s/ Barton Hedges  
Barton Hedges  
Chief Executive Officer  
Date: February 21, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ DAVID M. EINHORN  
David M. Einhorn  
Director  
Date: February 21, 2012

/s/ LEONARD GOLDBERG  
Leonard Goldberg  
Director  
Date: February 21, 2012

/s/ FRANK D. LACKNER  
Frank D. Lackner  
Director  
Date: February 21, 2012

/s/ ALAN BROOKS  
Alan Brooks  
Director  
Date: February 21, 2012

/s/ IAN ISAACS  
Ian Isaacs  
Director  
Date: February 21, 2012

/s/ JOSEPH P. PLATT  
Joseph P. Platt  
Director  
Date: February 21, 2012

/s/ TIM COURTIS  
Tim Courtis  
Chief Financial Officer  
(principal financial and accounting officer)  
Date: February 21, 2012

/s/ BRYAN MURPHY  
Bryan Murphy  
Director  
Date: February 21, 2012

/s/ BARTON HEDGES  
Barton Hedges  
Director & Chief Executive Officer  
(principal executive officer)  
Date: February 21, 2012



[Back to Table of Contents](#)

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Greenlight Capital Re, Ltd.  
Grand Cayman, Cayman Islands

We have audited Greenlight Capital Re, Ltd.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Greenlight Capital Re, Ltd.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying ‘Item 9A, Management Report on Internal Control Over Financial Reporting’. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Greenlight Capital Re, Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Greenlight Capital Re, Ltd. as of December 31, 2011 and 2010, and the related consolidated statements of income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated February 21, 2012 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP  
Grand Rapids, Michigan, USA

February 21, 2012

F-1

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[Back to Table of Contents](#)

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Greenlight Capital Re, Ltd.  
Grand Cayman, Cayman Islands

We have audited the accompanying consolidated balance sheets of Greenlight Capital Re, Ltd. as of December 31, 2011 and 2010 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Greenlight Capital Re, Ltd. at December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Greenlight Capital Re, Ltd.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 21, 2012 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP  
Grand Rapids, Michigan, USA

February 21, 2012

F-2

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[Back to Table of Contents](#)

GREENLIGHT CAPITAL RE, LTD.  
CONSOLIDATED BALANCE SHEETS

December 31, 2011 and 2010  
(expressed in thousands of U.S. dollars, except per share and share amounts)

	2011	2010
Assets		
Investments		
Debt instruments, trading, at fair value	\$ 10,639	\$ 15,610
Equity securities, trading, at fair value	890,822	839,921
Other investments, at fair value	128,685	179,023
Total investments	1,030,146	1,034,554
Cash and cash equivalents	42,284	45,540
Restricted cash and cash equivalents	957,462	977,293
Financial contracts receivable, at fair value	23,673	46,168
Reinsurance balances receivable	141,278	109,567
Loss and loss adjustment expenses recoverable	29,758	11,976
Deferred acquisition costs, net	68,725	87,389
Unearned premiums ceded	27,233	7,424
Notes receivable	17,437	14,205
Other assets	5,492	3,886
Total assets	\$ 2,343,488	\$ 2,338,002
Liabilities and shareholders' equity		
Liabilities		
Securities sold, not yet purchased, at fair value	\$ 683,816	\$ 725,990
Financial contracts payable, at fair value	6,324	23,493
Due to prime brokers	260,359	273,071
Loss and loss adjustment expense reserves	241,279	186,467
Unearned premium reserves	225,735	234,983
Reinsurance balances payable	38,379	20,164
Funds withheld	31,844	22,887
Other liabilities	10,054	11,786
Total liabilities	1,497,790	1,498,841
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, 30,283,200 (2010: 30,200,835): Class B: par value \$0.10; authorized, 25,000,000; issued and outstanding, 6,254,949 (2010: 6,254,949))	3,6544	3,646
Additional paid-in capital	488,478	485,555
Retained earnings	310,971	304,202
Shareholders' equity attributable to shareholders	803,103	793,403
Non-controlling interest in joint venture	42,595	45,758
Total equity	845,698	839,161
Total liabilities and equity	\$ 2,343,488	\$ 2,338,002

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

F-3

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[Back to Table of Contents](#)

GREENLIGHT CAPITAL RE, LTD.  
CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2011, 2010 and 2009  
(expressed in thousands of U.S. dollars, except per share and share amounts)

	2011	2010	2009
<b>Revenues</b>			
Gross premiums written	\$ 397,659	\$ 414,850	\$ 258,818
Gross premiums ceded	(46,920)	(12,011)	(13,276)
Net premiums written	350,739	402,839	245,542
Change in net unearned premium reserves	29,036	(115,138)	(30,862)
Net premiums earned	379,775	287,701	214,680
Net investment income	23,118	104,006	199,861
Other income (expense), net	253	(1,079)	4,538
Total revenues	403,146	390,628	419,079
<b>Expenses</b>			
Loss and loss adjustment expenses incurred, net	241,690	177,018	119,045
Acquisition costs, net	138,751	102,645	69,232
General and administrative expenses	13,892	16,187	18,994
Total expenses	394,333	295,850	207,271
Income from continuing operations before income tax expense	8,813	94,778	211,808
Income tax (expense) benefit	(247)	(396)	49
Net income including non-controlling interest	8,566	94,382	211,857
Income attributable to non-controlling interest in joint venture	(1,797)	(3,740)	(2,312)
Net income	\$ 6,769	\$ 90,642	\$ 209,545
<b>Earnings per share</b>			
Basic	\$ 0.19	\$ 2.49	\$ 5.78
Diluted	0.18	2.44	5.71
Weighted average number of ordinary shares used in the determination of earnings per share:			
Basic	36,548,466	36,420,719	36,230,501
Diluted	37,286,454	37,224,173	36,723,552

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

[Back to Table of Contents](#)

GREENLIGHT CAPITAL RE, LTD.  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2011, 2010 and 2009  
(expressed in thousands of U.S. dollars, except per share and share amounts)

	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, 2008	\$ 3,604	\$ 477,571	\$ 4,207	\$ 485,382	\$ 6,058	\$ 491,440
Issue of Class A ordinary shares, net of forfeitures	28	716	—	744	—	744
Share-based compensation expense, net of forfeitures	—	3,410	—	3,410	—	3,410
Options repurchased	—	(248)	(192)	(440)	—	(440)
Non-controlling interest contribution in (withdrawal from) joint venture, net	—	—	—	—	22,227	22,227
Income attributable to non-controlling interest in joint venture	—	—	—	—	2,312	2,312
Net income	—	—	209,545	209,545	—	209,545
Balance at December 31, 2009	\$ 3,632	\$ 481,449	\$ 213,560	\$ 698,641	\$ 30,597	\$ 729,238
Issue of Class A ordinary shares, net of forfeitures	14	18	—	32	—	32
Share-based compensation expense, net of forfeitures	—	4,088	—	4,088	—	4,088
Non-controlling interest contribution in (withdrawal from) joint venture, net	—	—	—	—	11,421	11,421
Income attributable to non-controlling interest in joint venture	—	—	—	—	3,740	3,740
Net income	—	—	90,642	90,642	—	90,642
Balance at December 31, 2010	\$ 3,646	\$ 485,555	\$ 304,202	\$ 793,403	\$ 45,758	\$ 839,161
Issue of Class A ordinary shares, net of forfeitures	8	—	—	8	—	8
Share-based compensation expense, net of forfeitures	—	2,923	—	2,923	—	2,923
Non-controlling interest contribution in (withdrawal from) joint venture, net	—	—	—	—	(4,960)	(4,960)
Income attributable to non-controlling interest in joint venture	—	—	—	—	1,797	1,797
Net income	—	—	6,769	6,769	—	6,769
Balance at December 31, 2011	\$ 3,654	\$ 488,478	\$ 310,971	\$ 803,103	\$ 42,595	\$ 845,698

The accompanying Notes to the Consolidated Financial Statements are an

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integral part of the Consolidated Financial Statements.

F-5

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[Back to Table of Contents](#)

GREENLIGHT CAPITAL RE, LTD.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2011, 2010 and 2009  
(expressed in thousands of U.S. dollars, except per share and share amounts)

	2011	2010	2009
Cash provided by (used in)			
Operating activities			
Net income	\$ 6,769	\$ 90,642	\$ 209,545
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	75,670	(48,154)	(192,319)
Net realized gains on investments and financial contracts	(139,760)	(79,088)	(38,512)
Foreign exchange (gains) losses on restricted cash and cash equivalents	6,953	(6,397)	(1,580)
Income attributable to non-controlling interest in joint venture	1,797	3,740	2,312
Share-based compensation expense, net of forfeitures	2,923	4,088	3,410
Depreciation expense	232	225	117
Net change in			
Reinsurance balances receivable	(31,711)	(26,819)	(23,175)
Loss and loss adjustment expenses recoverable	(17,782)	(4,706)	4,392
Deferred acquisition costs, net	18,664	(52,988)	(16,772)
Unearned premiums ceded	(19,809)	(946)	889
Other assets	(1,378)	643	(1,247)
Loss and loss adjustment expense reserves	54,812	49,107	55,935
Unearned premium reserves	(9,248)	116,084	29,973
Reinsurance balances payable	18,215	(14,137)	(377)
Funds withheld	8,957	8,176	10,845
Other liabilities	(1,732)	(1,010)	6,567
Net cash provided by (used in) operating activities	(26,428)	38,460	50,003
Investing activities			
Purchases of investments and financial contracts	(1,677,795)	(1,067,595)	(1,226,298)
Sales of investments and financial contracts	1,709,445	1,137,240	1,447,431
Change in due to prime brokers	(12,712)	273,071	—
Change in restricted cash and cash equivalents, net	12,878	(380,025)	(340,961)
Change in notes receivable, net	(3,232)	1,219	(13,655)
Non-controlling interest contribution in (withdrawal from) joint venture, net	(4,960)	11,421	22,227
Fixed assets additions	(460)	—	(1,478)
Net cash provided by (used in) investing activities	23,164	(24,669)	(112,734)
Financing activities			
Net proceeds from share issue	8	—	28
Options repurchased	—	—	(440)
Net proceeds from exercise of stock options	—	32	716
Net cash provided by (used in) financing activities	8	32	304
Net increase (decrease) in cash and cash equivalents	\$ (3,256)	13,823	(62,427)



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Cash and cash equivalents at beginning of the year	45,540	31,717	94,144
Cash and cash equivalents at end of the year	\$ 42,284	\$ 45,540	\$ 31,717
Supplementary information			
Interest paid in cash	\$ 15,882	\$ 10,944	\$ 5,629
Interest received in cash	530	13,888	6,350
Income tax paid in cash	499	92	

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

F-6

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[Back to Table of Contents](#)

GREENLIGHT CAPITAL RE, LTD.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2011, 2010 and 2009

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 an unrestricted Class “B” insurance license under Section 4(2) of the Cayman Islands Insurance 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 September 2010, GLRE established a wholly owned reinsurance subsidiary based in Dublin, Ireland; Greenlight Reinsurance Ireland, Ltd. (GRIL). 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 subsidiaries.

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

These consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The consolidated financial statements include the accounts of GLRE and the consolidated financial statements of its wholly owned subsidiaries, Greenlight Re, GRIL and Verdant. All significant intercompany transactions and balances have been eliminated on consolidation.

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and certain short-term, highly liquid investments with original maturity dates of three months or less.

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 for collateralizing the letters of credit issued under certain letter of credit facilities (see Notes 4 and 6). 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.

#### Premium Revenue Recognition

The Company accounts for reinsurance contracts in accordance with U.S. GAAP. In the event that a reinsurance contract does not transfer sufficient risk, deposit accounting is used and the contract is reported as a deposit liability.

The Company writes excess of loss contracts as well as quota share contracts. The Company estimates the ultimate premiums for the entire contract period. These estimates are based on information received from the ceding companies and estimates from actuarial pricing models used by the Company. For excess of loss contracts, the total ultimate estimated premiums are recorded as premiums written at the inception of the contract. For quota share contracts, the premiums are recorded as written based on cession statements from cedents which typically are received monthly or quarterly depending on terms specified in each contract. For any reporting lag, premiums written are estimated based on the portion of the ultimate estimated premiums relating to the risks underwritten during the lag period.

Changes in premium estimates, including premium receivable on both excess of loss and quota share contracts are expected and may result in significant adjustments in any period. These estimates change over time as additional information regarding the underlying business volume is obtained. Any subsequent adjustments arising on such estimates are recorded in the period in which they are determined.

Certain contracts allow for re-instatement premiums in the event of a full limit loss prior to the expiry of a contract. A re-instatement premium is not due until there is a full limit loss event and therefore, in accordance with U.S. GAAP, the Company records a re-instatement premium as written only in the event that a client incurs a full limit loss on the contract and the contract allows for a re-instatement of coverage upon payment of an additional premium.

[Back to Table of Contents](#)

Certain contracts provide for a penalty to be paid if the contract is terminated and cancelled prior to its expiration term. Cancellation penalties are recognized in the period the notice of cancellation is received and are recorded in the consolidated statements of income under other income (expense).

Premiums written are generally recognized as earned over the contract period in proportion to the period of risk covered. Unearned premiums consist of the unexpired portion of reinsurance provided.

#### Reinsurance Premiums Ceded

The Company reduces the risk of future losses on business assumed by reinsuring certain risks and exposures with other reinsurers (retrocessionaires). The Company remains liable to the extent that any retrocessionaire fails to meet its obligations and to the extent the Company does not hold sufficient security for their unpaid obligations.

Ceded premiums are written during the period in which the risks incept and are expensed over the contract period in proportion to the period of protection. Unearned premiums ceded consist of the unexpired portion of reinsurance obtained.

#### Deferred Acquisition Costs

Policy acquisition costs, such as commission and brokerage costs, relate directly to, and vary with, the writing of reinsurance contracts. These costs are deferred subject to ultimate recoverability and 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 December 31, 2011 and 2010, the deferred acquisition costs were 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 December 31, 2011, \$10.1 million (2010: \$6.2 million) of profit commission reserves were included in reinsurance balances payable on the consolidated balance sheets. For the year ended December 31, 2011, \$3.9 million (2010: \$4.8 million and 2009: \$6.8 million) of profit commission expenses were included in acquisition costs, on the consolidated statements of income.

#### Funds Withheld

Funds withheld include reinsurance balances retained from retrocessionaires as security for a period of time in accordance with the contract terms. Any interest expense that the Company incurs during the period these funds are withheld, are included under net investment income in the 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. 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 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 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. The Company regularly reviews all notes receivable individually for impairment and records provisions for uncollectible and non-performing notes. The Company places notes on non-accrual status when the 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 or outstanding, 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. For the years ended December 31, 2011 and 2010, no interest was received relating to the notes placed on non-accrual status.

For the year ended December 31, 2011, the notes earned interest at annual interest rates ranging from 6% to 10% and had maturity terms ranging from approximately 3 to 7 years. At December 31, 2011, included in the notes receivable balance was \$16.5 million (2010: \$0 million), related to notes placed on non-accrual status based on expectations of the Company's ability to collect any further interest that would accrue up to maturity.

Based on management's assessment, the recorded values of the notes at December 31, 2011 and 2010, were expected to be fully collectible and therefore no provision for uncollectible interest was deemed necessary at December 31, 2011 and 2010. Interest income earned on notes receivable is included under net investment income in the consolidated statements of income.

[Back to Table of Contents](#)

## 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 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 consolidated balance sheets. Amortized gains are recorded in the consolidated statements of income as other income. At December 31, 2011, included in the consolidated balance sheets under reinsurance balances receivable and reinsurance balances payable were \$4.7 million and \$1.1 million of deposit assets and deposit liabilities (2010: \$3.9 million and \$1.0 million), respectively. For the year ended December 31, 2011, included in other income (expense), net were \$0.9 million relating to losses on deposit accounted contracts (2010: \$1.2 million, 2009: \$0.6 million). There was no gain on deposit accounted contracts recorded for the years ended December 31, 2011 and 2010 (2009: \$1.5 million).

## Fixed Assets

Fixed assets are included in other assets on the consolidated balance sheets and are recorded at cost. Fixed assets are comprised of computer software, furniture and fixtures and leasehold improvements and are depreciated, using the straight-line method, over their estimated useful lives, which are five years for both computer software, and furniture and fixtures. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or remaining lease term.

At December 31, 2011, the cost, accumulated depreciation and net book values of the fixed assets were as follows:

	Cost	Accumulated depreciation	Net book value
	(\$ in thousands)		
Computer software	\$ 200	\$ (200)	\$ —
Furniture and fixtures	451	(142)	309
Leasehold improvements	1,487	(332)	1,155
Total	\$ 2,138	\$ (674)	\$ 1,464

At December 31, 2010, the cost, accumulated depreciation and net book values of the fixed assets were as follows:

	Cost	Accumulated depreciation	Net book value
	(\$ in thousands)		
Computer software	\$ 200	\$ (180)	\$ 20
Furniture and fixtures	261	(74)	187
Leasehold improvements	1,217	(188)	1,029
Total	\$ 1,678	\$ (442)	\$ 1,236

The Company periodically reviews fixed assets that have finite lives, and that are not held for sale, for impairment by comparing the carrying value of the assets to their estimated future undiscounted cash flows. For the years ended December 31, 2011 and 2010, there were no impairments in fixed assets.

## 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 funds' managers.

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 or amortized cost, as appropriate) and included in net investment income in the 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.

[Back 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.

## 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 in the consolidated statements of income. 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 on the 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 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 in the 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 in the 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, 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 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). Amounts invested in exchange traded and over the counter ("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, which are considered to be binding.

The Company purchases and sells 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 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).

## Share-Based Compensation



The Company has established a stock incentive plan for directors, employees and consultants. In addition, the Company granted share purchase options in 2004 to a service provider in exchange for services received (see Note 10).

U.S. GAAP requires the Company to recognize share-based compensation transactions using the fair value at the grant date of the award. The Company measures compensation for restricted shares based on the price of the Company's common shares at the grant date and the expense is recognized on a straight line basis over the vesting period.

Determining the fair value of share purchase options at the grant date requires significant estimation and judgment. The Company uses an option-pricing model (Black-Scholes option pricing model) to assist in the calculation of fair value for share purchase options. The Company's shares have not been publicly traded for a sufficient length of time to solely use the Company's performance to reasonably estimate the expected volatility. Therefore, when estimating the expected volatility, the Company takes into consideration the historical volatility of similar entities. The Company considers factors such as an entity's industry, stage of life cycle, size and financial leverage when selecting similar entities. The Company uses a sample peer group of companies in the reinsurance industry as well as the Company's own historical volatility in determining the expected volatility. Additionally, the Company uses the full life of the options, ten years, as the estimated term of the options, and has assumed no forfeitures and no dividends paid during the life of the options.

Service provider share purchase options are expensed in the consolidated statements of income when services are rendered. For share purchase options issued under the employee stock incentive plan, compensation cost is calculated and expensed over the vesting periods on a graded vesting basis (see Note 10).

If actual results differ significantly from these estimates and assumptions, particularly in relation to the Company's estimation of volatility which requires the most judgment due to the Company's limited operating history, share-based compensation expense, primarily with respect to future share-based awards, could be materially impacted.

#### Foreign Exchange

The reporting currency of the Company and all its subsidiaries is the U.S. dollar. Transactions in foreign currencies are recorded in U.S. dollars at the exchange rates in effect on the transaction date. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the exchange rate in effect at the balance sheet date and translation exchange gains and losses, if any, are included in the consolidated statements of income.

[Back to Table of Contents](#)

## Other Assets

Other assets consist primarily of investment income receivable, prepaid expenses, fixed assets and deferred tax assets.

## Other Liabilities

Other liabilities consist primarily of dividends payable on securities sold, not yet purchased, and employee bonus accruals. At December 31, 2011, other liabilities included accrued bonus of \$3.7 million (2010: \$7.8 million). Under the Company's bonus program, each employee's target bonus consists of two components: a discretionary component based on a qualitative assessment of each employee's performance and a quantitative component based on the return on deployed equity ("RODE") for each underwriting year relating to reinsurance operations. The qualitative portion of an employee's annual bonus is accrued at each employee's target amount, which may differ significantly from the actual amount approved and awarded annually by the Compensation Committee. The quantitative portion of each employee's annual bonus is accrued based on the expected RODE for each underwriting year and adjusted for changes in the expected RODE and actual investment return each quarter until the final quantitative bonus is calculated and paid two years from the end of the fiscal year in which the business was underwritten. The expected RODE calculation utilizes proprietary models which require significant estimation and judgment. Actual RODE may vary significantly from the expected RODE and any adjustments to the quantitative bonus estimates, which may be material, are recorded in the period they are determined.

Also included in other liabilities are accruals for income taxes payable, professional fees and other general expenses.

## Non-controlling Interest

Non-controlling interest in joint venture on the consolidated balance sheets represents DME Advisors, LP's ("DME Advisors") share of assets in the joint venture whereby DME Advisors manages jointly held assets as disclosed in Note 13. DME Advisors' share of investment income or loss is included in the consolidated statements of income as non-controlling interest in income or loss of joint venture.

## Comprehensive Income (Loss)

The Company has no comprehensive income (loss) other than the net income (loss) disclosed in the consolidated statements of income.

## Earnings (Loss) Per Share

Basic earnings (loss) per share are based on the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings (loss) 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. In the event of a net loss, any stock options outstanding are excluded from the calculation of diluted loss per share. U.S. GAAP 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 treats its unvested restricted stock as participating securities. In the event of a net loss, the participating securities are excluded from the calculation of both basic and diluted loss per share.

	2011	2010	2009
Weighted average shares outstanding	36,548,466	36,420,719	36,230,501
	170,056	182,559	131,163

Effect of dilutive service provider share-based awards

Effect of dilutive employee and director share-based awards	567,932	620,895	361,888
	37,286,454	37,224,173	36,723,552
Anti-dilutive stock options outstanding	180,000	240,000	210,000

#### 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 U.S. Internal Revenue Service. 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.

[Back to Table of Contents](#)

### Segment Information

Under U.S. GAAP, operating segments are based on the internal information that management uses for allocating resources and assessing performance as the source of the Company's reportable segments.

The Company manages its business on the basis of one operating segment, Property and Casualty Reinsurance, in accordance with the qualitative and quantitative criteria established by U.S. GAAP.

### Recently Issued Accounting Standards

In October 2010, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. 2010-26 ("ASU 2010-26"), Financial Services – Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. ASU 2010-26 modifies the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. ASU 2010-26 is effective for fiscal years beginning after December 15, 2011 and is to be applied prospectively upon adoption, although retrospective application is permitted. The effects of implementing ASU 2010-26 are not expected to have a material impact on the Company's results of operations or financial position.

### Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation. The reclassifications resulted in no changes to net income (loss) or retained earnings for any of the years presented.

## 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.

The Company is exposed to credit risk in relation to counterparties that may default on their obligations to the Company. The amount of counterparty credit risk predominantly relates to the value of financial contracts receivable and assets held at counterparties. The Company mitigates its counterparty credit risk by using several counterparties which decreases the likelihood of any significant concentration of credit risk with any one counterparty. In addition, the Company is exposed to credit risk on corporate and sovereign debt instruments to the extent that the debtors may default on their debt obligations.

The Company is exposed to market risk including interest rate and foreign exchange fluctuations on financial instruments that are valued at market prices. Market movements can be volatile and difficult to predict. This may affect the ultimate gains or losses realized upon the sale of its holdings. Management utilizes the services of the Company's investment advisor to monitor the Company's positions to reduce the risk of potential loss due to changes in market values.

Purchases and sales of investments are disclosed in the consolidated statements of cash flows. Net realized gains on the sale of investments, financial contracts, and investments sold, not yet purchased during 2011 were \$139.8 million (2010: \$79.1 million, 2009: \$38.5 million). Gross realized gains were \$337.9 million (2010: \$207.0 million, 2009: \$215.7 million) and gross realized losses were \$198.1 million (2010: \$127.9 million, 2009: \$177.2 million). For the year ended December 31, 2011, included in net investment income in the consolidated statements of income were \$75.7 million of net losses (2010: \$48.6 million of net gains, 2009: \$190.0 million of net gains) relating to change in unrealized gains and losses on trading securities still held at the balance sheet date.

As of December 31, 2011, cash and investments with a fair value of \$410.5 million (2010: \$349.6 million) have been pledged as security against letters of credit issued.

As of December 31, 2011, the Company's investments in Apple Inc. and gold and gold derivatives were the only investments in excess of 10% of the Company's shareholders' equity, with fair values of \$87.5 million and \$98.6 million, respectively, or 10.3% and 11.7% of shareholders' equity, respectively. As of December 31, 2010, the Company's investment in gold and gold derivatives was the only investment in excess of 10% of shareholders' equity, with a fair value of \$113.2 million, or 13.5% of shareholders' equity.

#### 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 in the consolidated statements of income.

[Back 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, 2011:

Description	Fair Value Measurements as of December 31, 2011			Total
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets:				
				(\$ in thousands)
Debt instruments	\$ —	\$ 10,174	\$ 465	\$ 10,639
Listed equity securities	866,069	24,753	—	890,822
Commodities	97,506	—	—	97,506
Private and unlisted equity securities	—	—	31,179	31,179
Financial contracts receivable	881	22,529	263	23,673
	\$ 964,456	\$ 57,456	\$ 31,907	\$ 1,053,819
Liabilities:				
Listed equity securities, sold not yet purchased	\$ (539,197)	\$ —	\$ —	\$ (539,197)
Debt instruments, sold not yet purchased	—	(144,619)	—	(144,619)
Financial contracts payable	(1,070)	(5,254)	—	(6,324)
	\$ (540,267)	\$ (149,873)	\$ —	\$ (690,140)

The following table presents the Company's investments, categorized by the level of the fair value hierarchy as of December 31, 2010:

Description	Fair Value Measurements as of December 31, 2010			Total
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets:				
				(\$ in thousands)
Debt instruments	\$ —	\$ 12,365	\$ 3,245	\$ 15,610
Listed equity securities	839,921	—	—	839,921
Commodities	132,466	—	—	132,466
Private and unlisted equity securities	—	3,610	42,947	46,557
Financial contracts receivable	103	45,851	214	46,168
	\$ 972,490	\$ 61,826	\$ 46,406	\$ 1,080,722
Liabilities:				
Listed equity securities, sold not yet purchased	\$ (724,173)	\$ —	\$ —	\$ (724,173)
Debt instruments, sold not yet purchased	—	(1,817)	—	(1,817)
Financial contracts payable	(427)	(23,066)	—	(23,493)
	\$ (724,600)	\$ (24,883)	\$ —	\$ (749,483)

The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2011:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)  
December 31, 2011

	Debt instruments	Private and unlisted equity securities (\$ in thousands)	Financial contracts receivable	Total
Beginning balance	\$ 3,245	\$ 42,947	\$ 214	\$ 46,406
Purchases	—	8,192	500	8,692
Sales	(2,408)	(12,214)	—	(14,622)
Total realized and unrealized gains (losses) and amortization included in earnings, net	(372)	1,916	(451)	1,093
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	(9,662)	—	(9,662)
Ending balance	\$ 465	\$ 31,179	\$ 263	\$ 31,907

[Back to Table of Contents](#)

The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2010:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				Total
	December 31, 2010				
	Debt instruments	Private and unlisted equity securities	Financial contracts receivable		
	(\$ in thousands)				
Beginning balance	\$ 1,537	\$ 25,228	\$ —	\$	26,765
Purchases, sales, issuances, and settlements, net	1,558	14,483	855		16,896
Total gains (losses) realized and unrealized included in earnings, net	150	3,236	(641)		2,745
Transfers into Level 3, net	—	—	—		—
Ending balance	\$ 3,245	\$ 42,947	\$ 214	\$	46,406

During the year ended December 31, 2011, \$9.7 million of securities were transferred from Level 3 to Level 1, as these securities started actively trading on listed exchanges during 2011. There were no other transfers between Level 1, Level 2 or Level 3 during the year ended December 31, 2011.

For the year ended December 31, 2010, the Company transferred, from Level 1 to Level 2, an equity security with a fair value on the date of transfer of \$0.1 million, for which a quoted price on an active market was not available and as a result broker quotes were relied upon to determine the fair value. Any transfers between the levels of fair value hierarchy are recognized by the Company on the date of the transfer.

For the year ended December 31, 2011, realized losses of \$0.3 million, and increase in unrealized gains of \$1.9 million on securities held at the reporting date and valued using unobservable inputs are included in net investment income in the consolidated statements of income. In addition, for the year ended December 31, 2011, amortization expense of \$0.5 million relating to financial contracts receivable valued using unobservable inputs, was included in other income (expense), net.

For the year ended December 31, 2010, realized losses of \$2.4 million, and increase in unrealized gains of \$5.8 million on securities held at the reporting date and valued using unobservable inputs are included in net investment income in the consolidated statements of income. In addition, for the year ended December 31, 2010, amortization expense of \$0.6 million relating to financial contracts receivable valued using unobservable inputs, was included in other income (expense), net.

## Investments

### Debt instruments, trading

At December 31, 2011 and 2010, the following investments were included in debt instruments:

	Cost/ amortized cost	Unrealized gains	Unrealized losses	Fair value
2011				



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	(\$ in thousands)			
Corporate debt – U.S.	\$ 4,064	\$ 49	\$ (1,685)	\$ 2,428
Corporate debt – Non U.S.	5,010	435	—	5,445
Sovereign debt – Non U.S.	2,481	285	—	2,766
Total debt instruments	\$ 11,555	\$ 769	\$ (1,685)	\$ 10,639

2010	Cost/ amortized cost	Unrealized gains	Unrealized Losses	Fair value
	(\$ in thousands)			
Corporate debt – U.S.	\$ 11,384	\$ 5,574	\$ (1,349)	\$ 15,609
Corporate debt – Non U.S.	16	—	(15)	1
Total debt instruments	\$ 11,400	\$ 5,574	\$ (1,364)	\$ 15,610

F-14

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[Back to Table of Contents](#)

The maturity distribution for debt instruments held at December 31, 2011 and 2010 were as follows:

	2011 Cost/ amortized cost (\$ in thousands)	Fair value	2010 Cost/ amortized cost	Fair value
Within one year	\$ 2,482	\$ 2,767	\$ 3,691	\$ 4,377
From one to five years	—	—	3,544	6,331
From five to ten years	6,755	7,158	1,831	3,918
More than ten years	2,318	714	2,334	984
	\$ 11,555	\$ 10,639	\$ 11,400	\$ 15,610

## Investment in Equity Securities, Trading

At December 31, 2011 and 2010, the following long positions were included in investment securities, trading:

2011	Cost	Unrealized gains (\$ in thousands)	Unrealized losses	Fair value
Equities – listed	\$ 827,435	\$ 78,947	\$ (75,593)	\$ 830,789
Exchange traded funds	57,011	6,037	(3,015)	60,033
	\$ 884,446	\$ 84,984	\$ (78,608)	\$ 890,822

2010	Cost	Unrealized gains (\$ in thousands)	Unrealized losses	Fair value
Equities – listed	\$ 661,695	\$ 164,861	\$ (18,347)	\$ 808,209
Exchange traded funds	16,564	15,148	—	31,712
	\$ 678,259	\$ 180,009	\$ (18,347)	\$ 839,921

## Other Investments

“Other investments” include commodities and private and unlisted equity securities. As of December 31, 2011 and 2010, commodities were comprised of gold bullion.

At December 31, 2011, the following securities are included in other investments:

	Cost	Unrealized gains (\$ in thousands)	Unrealized losses	Fair value
Commodities	\$ 65,365	\$ 32,141	\$ —	\$ 97,506
Private and unlisted equity securities	32,157	2,146	(3,124)	31,179
	\$ 97,522	\$ 34,287	\$ (3,124)	\$ 128,685

At December 31, 2010, the following securities are included in other investments:

	Cost	Unrealized	Unrealized	Fair
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			gains		losses		value
			(\$ in thousands)				
Commodities	\$	96,551	\$	35,915	\$	—	\$ 132,466
Private and unlisted equity securities		46,438		3,280		(3,161)	46,557
	\$	142,989	\$	39,195	\$	(3,161)	\$ 179,023

F-15

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[Back to Table of Contents](#)

As of December 31, 2011, included in private and unlisted equity securities are investments in private equity funds with a fair value of \$12.8 million (2010: \$6.6 million) determined based on unadjusted net asset values reported by the funds' managers as of periods prior to the Company's year ended December 31, 2011. The private equity funds have varying lock-up periods and as of December 31, 2011 none of the funds were redeemable. As of December 31, 2011, the Company had \$18.4 million (2010: \$11.9 million) of unfunded commitments relating to private equity funds whose fair values are determined based on unadjusted net asset values reported by the funds' managers. This commitment is included in the amounts presented in the schedule of commitments and contingencies in Note 14 of these consolidated financial statements.

## Investments in Securities Sold, Not Yet Purchased

Securities sold, not yet purchased are securities that the Company has sold, but does not own, in anticipation of a decline in the market value of the security. The Company's risk is that the value of the security will increase rather than decline. Consequently, the settlement amount of the liability for securities sold, not yet purchased may exceed the amount recorded in the consolidated balance sheet as the Company is obligated to purchase the securities sold, not yet purchased in the market at prevailing prices to settle its obligations. To sell a security, not yet purchased, the Company needs to borrow the security for delivery to the buyer. On each day the transaction is open, the liability for the obligation to replace the borrowed security is marked-to-market and an unrealized gain or loss is recorded. At the time the transaction is closed, the Company realizes a gain or loss equal to the difference between the price at which the security was sold and the cost of replacing the borrowed security. While the transaction is open, the Company will also incur an expense for any dividends or interest which will be paid to the lender of the securities.

At December 31, 2011, the following securities are included in investments in securities sold, not yet purchased:

	Proceeds	Unrealized gains	Unrealized losses	Fair value
	(\$ in thousands)			
Equities – listed	\$ (583,078)	\$ 98,726	\$ (54,845)	\$ (539,197)
Corporate debt – U.S	(1,870)	11	—	(1,859)
Sovereign debt – Non U.S	(153,828)	11,068	—	(142,760)
	\$ (738,776)	\$ 109,805	\$ (54,845)	\$ (683,816)

At December 31, 2010, the following securities are included in investments in securities sold, not yet purchased:

	Proceeds	Unrealized gains	Unrealized losses	Fair value
	(\$ in thousands)			
Equities – listed	\$ (634,720)	\$ 61,216	\$ (101,960)	\$ (675,464)
Exchange traded funds	(42,380)	—	(6,329)	(48,709)
Corporate debt – U.S	(1,870)	53	—	(1,817)
	\$ (678,970)	\$ 61,269	\$ (108,289)	\$ (725,990)

## Financial Contracts

As of December 31, 2011 and 2010, the Company had entered into total return swaps, CDS, options, futures 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 security. In addition, as of December 31, 2011 and 2010, the Company had entered into a

non-exchange traded weather derivative swap contract to manage its overall risk exposure to earthquake losses, under which the Company is entitled to receive a payment upon occurrence of certain specified earthquake events in the U.S.

F-16

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[Back to Table of Contents](#)

At December 31, 2011, the fair values of financial contracts outstanding were as follows:

Financial Contracts	Listing currency	Notional amount of underlying instruments	Fair value of net assets (obligations) on financial contracts
(\$ in thousands)			
Financial contracts receivable			
Interest rate options	USD	3,049,338	\$ 2,236
Credit default swaps, purchased – sovereign debt	USD	32,952	6,160
Credit default swaps, purchased – corporate debt	USD	260,862	1,614
Total return swaps - equities	USD	45,458	5,390
Put Options	USD	132,966	6,849
Call Options	USD	2,714	280
Futures	USD	9,075	881
Weather derivative swap	USD	5,000	263
Total financial contracts receivable, at fair value			\$ 23,673
Financial contracts payable			
Credit default swaps, purchased – sovereign debt	USD	251,467	\$ (2,675)
Credit default swaps, purchased – corporate debt	USD	26,029	(799)
Futures	USD	149,201	(887)
Total return swaps - equities	USD	11,795	(1,714)
Warrants and rights on listed equities	USD	183	(183)
Call options	USD	718	(66)
Total financial contracts payable, at fair value			\$ (6,324)

As of December 31, 2011, the carrying amount of the weather derivative swap is the unamortized portion of the premium paid to purchase the weather derivative swap contract which expires on July 10, 2012. An estimate of fair value is not practicable since the weather derivative swap contract is a non-exchange traded instrument and the time and cost involved in creating a valuation model to estimate the fair value would be excessive based on the immaterial amount and the short term contract period.

As of December 31, 2011, included in interest rate options are contracts on U.S. and Japanese interest rates.

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 writer, 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. For OTC options, a dealer acts as the counterparty and therefore the Company is exposed to credit risk to the extent the dealer is unable to meet its obligations. As of December 31, 2011, the Company held OTC put options (long) with a fair value of \$6.8 million. As of December 31, 2010, the Company held OTC call options and put options with fair values of \$0.2 million and \$13.9 million, respectively.

At December 31, 2010, the fair values of financial contracts outstanding were as follows:

Financial Contracts	Listing currency	Notional amount of underlying instruments	Fair value of net assets (obligations) on financial contracts	
			(\$ in thousands)	
Financial contracts receivable				
Interest rate options	USD	3,086,442	\$	11,860
Credit default swaps, purchased – sovereign debt	USD	258,299		10,507
Total return swaps - equities	USD	39,426		6,120
Put options	USD	200,315		13,935
Call options	USD	31,180		3,429
Futures	USD	28,613		103
Weather derivative swap	USD	10,000		214
Total financial contracts receivable, at fair value			\$	46,168
Financial contracts payable				
Credit default swaps, purchased – sovereign debt	USD	296,903	\$	(4,563)
Credit default swaps, purchased – corporate debt	USD	286,891		(3,496)
Credit default swaps, issued – corporate debt	USD	35,890		(12,037)
Total return swaps - equities	USD	33,881		(2,650)
Warrants and rights on listed equities	USD	427		(427)
Call options	USD	2,881		(320)
Total financial contracts payable, at fair value			\$	(23,493)

[Back to Table of Contents](#)

During the years ended December 31, 2011, 2010 and 2009, 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 years ended December 31,		
		2011	2010	2009
		(\$ in thousands)		
Interest rate options	Net investment income	\$ (9,625)	\$ (11,666)	\$ 7,793
Credit default swaps, purchased – corporate debt	Net investment income	1,042	(4,188)	(14,922)
Credit default swaps, purchased – sovereign debt	Net investment income	14,957	9,071	(8,273)
Total return swaps – equities	Net investment income	8,094	9,792	6,563
Credit default swaps, issued – corporate debt	Net investment income	4,785	7,722	(1,016)
Currency forwards	Net investment income	(3,612)	—	—
Options, warrants, and rights	Net investment income	(29,185)	(21,676)	(6,666)
Futures	Net investment income	(2,365)	4,901	—
Weather derivative swap	Other income (expense), net	451	641	—
Total		\$ (15,458)	\$ (5,403)	\$ (16,521)

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 year ended December 31, 2011 and 2010, the Company's volume of derivative activities (based on notional amounts) was as follows:

Derivatives not designated as hedging instruments	2011		2010	
	Entered	Exited	Entered	Exited
(\$ in thousands)				
Credit default swaps	\$ 279,613	\$ 468,419	\$ 674,511	\$ 268,087
Total return swaps	37,045	45,507	34,471	20,284
Interest rate options	—	—	1,362,488	—
Options	677,506	230,490	639,486	203,840
Currency forwards	372,843	376,455	—	—
Futures	854,155	718,998	100,224	72,053
Weather derivative swap	5,000	10,000	10,000	—
Total	\$ 2,226,162	\$ 1,849,869	\$ 2,821,180	\$ 564,264

## 4. DUE TO PRIME BROKERS



As of December 31, 2011, the amount due to prime brokers is comprised of margin-borrowing from prime brokers relating to investments purchased on margin as well as the margin-borrowing for providing collateral to support some of the Company's outstanding letters of credit (see Notes 6 and 14). Under term margin agreements and certain letter of credit facility agreements, the Company pledges certain investment securities to borrow cash from the prime brokers. The borrowed cash is placed in a custodial account in the name of the Company and this custodial account provides collateral for any letters of credit issued by a banks. Since there is no legal right of offset, the Company's liability for the cash borrowed from the prime brokers is included on the consolidated balance sheets as due to prime brokers while the cash held in the custodial account is included on the consolidated balance sheets as restricted cash and cash equivalents. At December 31, 2011, the amounts due to prime brokers included \$256.1 million (December 31, 2010: \$218.7 million) of cash borrowed under the term margin agreements to provide collateral for letters of credit facilities and \$4.3 million (December 31, 2010: \$54.4 million) of borrowing relating to investment purchases.

The Company's investment guidelines allow for temporary (30 days) leverage for investment purposes up to 20% of net invested assets, and for an extended time period up to 5% of net invested assets. At December 31, 2011 and 2010, the Company was in compliance with the level of leverage for investment purposes allowed under its investment guidelines.

## 5. CASH AND CASH EQUIVALENTS

	2011		2010
	(\$ in thousands)		
Cash at banks	\$	4,004	\$ 4,673
Cash held with brokers		38,280	40,867
	\$	42,284	\$ 45,540

Due to the short term nature of cash and cash equivalents, management believes the above noted carrying values approximate their fair value. Cash at banks include cash held at non-U.S. financial institutions which are not insured by the FDIC or any other deposit insurance programs.

[Back to Table of Contents](#)

## 6. RESTRICTED CASH AND CASH EQUIVALENTS

The Company is required to maintain certain cash in segregated accounts with prime brokers and swap 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 for collateralizing the letters of credit issued under a certain letter of credit facility (see Notes 4 and 14). The amount of cash encumbered varies depending on the market value of the securities sold, not yet purchased and letters of credit issued. Swap 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 security.

	2011		2010
	(\$ in thousands)		
Cash held by prime brokers relating to securities sold, not yet purchased	\$	683,999	\$ 726,279
Cash collateral relating to letters of credit issued		256,098	218,737
Cash and cash equivalents held by swap counterparties		17,365	32,277
	\$	957,462	\$ 977,293

## 7. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

A summary of changes in outstanding loss and loss adjustment expense reserves is as follows:

	2011	2010	2009
	(\$ in thousands)		
Gross balance at January 1	\$ 186,467	\$ 137,360	\$ 81,425
Less: Losses recoverable	(11,976)	(7,270)	(11,662)
Net balance at January 1	174,491	130,090	69,763
Incurring losses related to:			
Current year	215,675	168,340	126,642
Prior years	26,015	8,678	(7,597)
Total incurred	241,690	177,018	119,045
Paid losses related to:			
Current year	(81,732)	(38,571)	(34,080)
Prior years	(122,898)	(94,027)	(24,661)
Total paid	(204,630)	(132,598)	(58,741)
Foreign currency revaluation	(30)	(19)	23
Net balance at December 31	211,521	174,491	130,090
Add: Losses recoverable	29,758	11,976	7,270
Gross balance at December 31	\$ 241,279	\$ 186,467	\$ 137,360

For the year ended December 31, 2011, the net unfavorable loss development relating to prior year contracts amounted to \$26.0 million and was primarily related to the following:

Adverse loss development of \$15.7 million based on data received from the client and the Company's reserve analysis relating to prior year commercial motor liability contracts that are in run-off. The Company received additional loss data from the client during 2011 that indicated higher than expected paid and incurred losses. During 2011, based on a review of the client's actual loss data and a reassessment in connection with the Company's quarterly reserve analysis, the loss reserves were increased accordingly;

Adverse loss development of \$9.7 million, net of recoveries from related retroceded contracts, on multi-line quota share contracts based on data received from the client and a reassessment in connection with the Company's quarterly reserve analysis which indicated higher large loss activity on the account than originally expected;

Adverse loss development of \$1.6 million on Florida homeowners' contracts based on data received from the client and a reassessment in connection with the Company's quarterly reserve analysis;

Favorable loss development of \$1.3 million relating to a specialty health contract based on data received from the client and a reassessment in connection with the Company's quarterly reserve analysis;

Adverse loss development of \$1.0 million on a 2010 natural peril contract relating to the 2010 New Zealand earthquake. This loss development resulted from revised estimated losses expected to breach into the Company's layer of coverage solely as a result of changes in foreign currency exchange rates for the New Zealand dollar and the Australian dollar against the U.S. dollar; and

Elimination of \$0.6 million of reserves on a professional liability excess of loss contracts, based on data received from the client and a reassessment in connection with the Company's quarterly reserve analysis.

[Back to Table of Contents](#)

For the year ended December 31, 2010, the net losses incurred included \$8.7 million related to net adverse loss development on reserves relating to prior years. During the year ended December 31, 2010, the loss development on prior year contracts primarily related to the following:

Adverse loss development of \$15.4 million relating to prior years' motor liability contracts, as a result of higher than expected paid and incurred losses included in the data received from the client. Based on a review of the client's actual loss data and a reassessment in connection with the Company's quarterly reserve analysis, the loss reserves were increased accordingly.

Adverse loss development of \$3.4 million based on data received from the client and a reassessment in connection with the Company's quarterly reserve analysis, relating to California wildfires on a 2007 casualty clash contract, resulting in losses being reserved at the full contract limit;

Adverse loss development of \$0.7 million on a 2008 professional liability excess of loss contract, based on data received from the client and a reassessment in connection with the Company's quarterly reserve analysis;

Adverse loss development of \$0.6 million on a 2007 quota share motor contract, based on data received from the client and a reassessment in connection with the Company's quarterly reserve analysis;

Favorable loss development of \$4.1 million on a multi-year professional liability excess of loss contract, based on data received from the client and a reassessment in connection with the Company's quarterly reserve analysis;

Elimination of \$1.9 million of reserves held on a medical malpractice contract commuted during 2010;

Favorable loss development of \$1.8 million in aggregate, on two catastrophe contracts based on data received from the clients and a reassessment in connection with the Company's quarterly reserve analysis;

Favorable loss development of \$1.4 million in aggregate, on two 2007 professional liability excess of loss contracts, based on data received from the clients and a reassessment in connection with the Company's quarterly reserve analysis;

Favorable loss development of \$1.3 million in aggregate, on specialty health contracts relating to 2007 and 2008 years, based on data received from the clients and a reassessment in connection with the Company's quarterly reserve analysis;

Favorable loss development of \$0.6 million on a 2008 clash contract, based on loss data received from the client and the Company's quarterly reserve analysis; and

Favorable loss development of \$0.4 million on a 2008 multi-line frequency quota share contract, net of retrocession, based on loss data received from the client and a reassessment in connection with the Company's quarterly reserve analysis.

For the year ended December 31, 2009, the net favorable loss development relating to prior years contracts amounted to \$7.6 million and was primarily related to the following:

Favorable loss development of \$8.0 million on a 2006 Florida personal lines contract. During each quarter of 2009, the client reported favorable development of claims data resulting from lower than expected paid and incurred losses which impacted the internal reserve analysis and correspondingly caused the reserves to be reduced;

Favorable loss development of \$1.5 million on a 2008 motor liability contract. The reserves on this contract were adjusted in the fourth quarter of 2009 based on data received from the client as well as the Company's internal quarterly reserve analysis;

Favorable loss development of \$0.7 million on a 2008 severity medical malpractice contract based on a reassessment in connection with the Company's internal quarterly reserve analysis;

Favorable loss development of \$0.7 million on a 2008 workers' compensation contract. The reserves on this contract were adjusted in the fourth quarter of 2009 based on data received from the client as well as a reassessment in connection with the Company's internal quarterly reserve analysis;

Eliminating \$1.0 million of reserves held on two casualty clash contracts which were commuted during the year ended December 31, 2009, without any reported losses;

Adverse loss development of \$3.4 million on a 2007 casualty clash contract resulting from claims relating to California wildfires; and

Adverse loss development of \$1.1 million on a 2007 health contract based on a reassessment in connection with the Company's internal quarterly reserve analysis.

The remaining net favorable loss development, excluding the above developments, was as a result of re-estimation of loss reserves performed on a quarterly and annual basis by the actuaries and underwriters based on cession statements and other information received on a contract by contract basis. There were no other significant adjustments (favorable or unfavorable) to the reserves on any given contract.

[Back to Table of Contents](#)

At December 31, 2011 and 2010, loss and loss adjustment expense reserves were comprised of the following:

	2011	2010
	(\$ in thousands)	
Case reserves	\$ 103,322	\$ 77,330
IBNR	137,957	109,137
Total	\$ 241,279	\$ 186,467

## 8. RETROCESSION

The Company from time to time purchases retrocessional coverage for one or more of the following reasons: to manage its overall exposure, to reduce its net liability on individual risks, to obtain additional underwriting capacity and to balance its underwriting portfolio. Additionally, retrocession can be used as a mechanism to share the risks and rewards of business written and therefore can be used as a tool to align the Company's interests with those of its counterparties. 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 recoverable from the retrocessionaires are recorded as assets. For the year ended December 31, 2011, loss and loss adjustment expenses incurred of \$241.7 million (2010:\$177.0 million and 2009: \$119.0 million) reported on the consolidated statements of income are net of loss and loss expenses recovered and recoverable of \$28.1 million (2010: \$7.9 million and 2009: \$1.1 million). Retrocession contracts do not relieve the Company from its obligations to the insureds. 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 December 31, 2011, the Company had loss and loss adjustment expense recoverable of \$0.1 million (2010: \$0.4 million) with a retrocessionaire rated "A+ (Superior)" by A.M. Best. Additionally, the Company has losses recoverable of \$29.7 million (2010: \$11.6 million) with unrated retrocessionaires. At December 31, 2011 and December 31, 2010, the Company retained funds and other collateral from the unrated retrocessionaires for amounts in excess of the loss recoverable asset, and the Company had recorded no provision for uncollectible losses recoverable.

## 9. SHARE CAPITAL

The holders of all ordinary shares are entitled to share equally in dividends declared by the Board of Directors. In the event of a winding-up or dissolution of the Company, the ordinary shareholders share equally and ratably in the assets of the Company, after payment of all debts and liabilities of the Company and after liquidation of any issued and outstanding preferred shares. At December 31, 2011, no preferred shares were issued or outstanding. The Board of Directors is authorized to establish the rights and restrictions for preferred shares as they deem appropriate.

The Third Amended and Restated Memorandum and Articles of Association as revised by special resolution on July 10, 2008 (the "Articles"), provide that the holders of Class A ordinary shares generally are entitled to one vote per share. However, except upon unanimous consent of the Board of Directors, no Class A shareholder is permitted to vote an amount of shares which would cause any United States person to own (directly, indirectly or constructively under applicable United States tax attribution and constructive ownership rules) 9.9% or more of the total voting power of all issued and outstanding ordinary shares. The Articles further provide that the holders of Class B ordinary shares generally are entitled to ten votes per share. However, holders of Class B ordinary shares, together with their affiliates, are limited to voting that number of Class B ordinary shares equal to 9.5% of the total voting power of the total issued and outstanding ordinary shares.

Pursuant to the Shareholders' Agreement, dated August 11, 2004, by and among the Company and certain of its shareholders, (the "Shareholders' Agreement") the holders of at least 50% of the outstanding Registrable Securities (as defined in the Shareholders' Agreement), may, subject to certain conditions, request to have all or part of their

Registrable Securities to become registered. The Shareholders' Agreement requires, among other things, that the Company use its commercially reasonable best efforts to have a registration statement covering such Registrable Securities to be declared effective. The registration rights granted pursuant to the Shareholders' Agreement are not deemed to be liabilities; therefore, there has been no recognition in the consolidated financial statements of the registration rights granted pursuant to the Shareholders' Agreement.

As of December 31, 2011, the Company had an unused Form S-3 registration statement, declared effective by the SEC on July 10, 2009, and expiring in July 2012 unless renewed, for an aggregate principal amount of \$200.0 million in securities.

Shares authorized for issuance are comprised of 300,000 (2010: 300,000) Class A ordinary shares in relation to share purchase options granted to a service provider and 3,500,000 (2010: 3,500,000) Class A ordinary shares authorized for the Company's stock incentive plan for eligible directors, employees and consultants. As of December 31, 2011, 1,322,773 (2010: 1,419,295) Class A ordinary shares remained available for future issuance under the Company's stock incentive plan. The stock incentive plan is administered by the Compensation Committee of the Board of Directors.

The Board has adopted a share repurchase plan. Under the share repurchase plan, the Board authorized the Company to purchase up to 2.0 million of its Class A ordinary shares from time to time. Class A ordinary shares may be purchased in the open market or through privately negotiated transactions. The timing of such repurchases and actual number of shares repurchased will depend on a variety of factors including price, market conditions and applicable regulatory and corporate requirements. The share repurchase plan, which expires on June 30, 2012, does not require the Company to repurchase any specific number of shares and may be modified, suspended or terminated at any time without prior notice. As of December 31, 2011, 1,771,100 shares remained available under the share repurchase plan.

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

As of December 31,	2011		2010		2009	
	Class A	Class B	Class A	Class B	Class A	Class B
Balance – beginning of year	30,200,835	6,254,949	30,063,893	6,254,949	29,781,736	6,254,949
Issue of ordinary shares, net of forfeitures	82,365	—	136,942	—	282,157	—
Repurchase of ordinary shares	—	—	—	—	—	—
Balance – end of year	30,283,200	6,254,949	30,200,835	6,254,949	30,063,893	6,254,949

[Back to Table of Contents](#)

Under the Companies Law of the Cayman Islands, the Company cannot hold treasury shares; therefore, all ordinary shares repurchased are cancelled immediately upon repurchase.

Greenlight Re is subject to a minimum shareholder's equity balance of \$120,000 as determined by the Cayman Islands Monetary Authority.

Additional paid-in capital includes the premium per share paid by the subscribing shareholders for Class A and B ordinary shares which have a par value of \$0.10 each. It also includes share-based awards earned not yet issued.

## 10. SHARE-BASED COMPENSATION

The Company has a stock incentive plan for directors, employees and consultants. As of December 31, 2011, the Company had reserved for issuance 3,500,000 Class A ordinary shares (2010: 3,500,000) for eligible participants. At December 31, 2011, 1,322,773 Class A ordinary shares were available for future issuance under the Company's stock incentive plan.

### Service Provider Share Purchase Options

An affiliate of Greenlight Capital Inc. entered into a consulting agreement (the "Consulting Agreement") with First International Securities Ltd. ("First International") in August 2002. First International received a cash payment of \$75,000 for the preparation and delivery of a feasibility study relating to the formation, capitalization, licensing and operation of the Company. Additionally, upon consummation of the initial private offering, First International Capital Holdings Ltd., the successor to First International, received a 10-year share purchase option to purchase 400,000 Class A ordinary shares. These share purchase options were granted on September 20, 2004 and have an exercise price of \$10 per share. The Company previously repurchased 100,000 of the share purchase options. During the year ended December 31, 2011, 50,000 share purchase options were exercised resulting in the issuance of 25,843 Class A ordinary shares. As of December 31, 2011, there were 250,000 share purchase options outstanding (2010: 300,000) with an exercise price of \$10.00 per share option, which will expire in 2014.

### Employee and Director Restricted Shares

As part of the stock incentive plan, the Company issues restricted shares for which the fair value is equal to the price of the Company's Class A ordinary shares on the grant date. Compensation based on the grant date fair market value of the shares is expensed on a straight line basis over the vesting period.

During the year ended December 31, 2011, 99,573 (2010: 100,720) 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 the date of issue, subject to the grantee's continued service with the Company. The Company also issued to certain directors, 36,565 (2010: 34,780) restricted Class A ordinary shares as part of the directors' remuneration. Each of these restricted shares issued to 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.

During the year ended December 31, 2011, 79,616 restricted shares were forfeited by the former chief executive officer of the Company upon his retirement. In accordance with U.S. GAAP, stock compensation expense of \$0.8 million relating to the forfeited restricted shares, was reversed during the year ended December 31, 2011.



The Company recorded \$2.4 million of share-based compensation expense relating to restricted shares for the year ended December 31, 2011 (2010: \$3.4 million, 2009: \$2.7 million). As of December 31, 2011, there were \$3.0 million (2010: \$3.5 million) of unrecognized compensation costs related to non-vested restricted shares which are expected to be recognized over a weighted average period of 1.6 years (2010: 1.1 years). For the year ended December 31, 2011, the total fair value of restricted shares vested was \$3.3 million (2010: \$2.2 million, 2009: \$0.4 million).

The restricted share award activity during the year ended December 31, 2011 was as follows:

	Number of non-vested restricted shares	Weighted average grant date fair value
Balance at December 31, 2010	469,099	19.00
Granted	136,138	25.69
Vested	(167,058)	19.95
Forfeited	(79,616)	19.27
Balance at December 31, 2011	358,563	21.03

[Back to Table of Contents](#)

## Employee and Director Stock Options

During the year ended December 31, 2011, the Company granted 100,000 Class A ordinary share purchase options to the Chief Executive Officer, pursuant to his employment contract (2010: 80,000 to the former Chief Executive Officer). These options vest 25% on the date of grant, and 25% each in 2012, 2013 and 2014 (2010 options vest 25% on the date of grant and 25% each in 2011, 2012, and 2013). The options expire after 10 years from the grant date. The grant date fair value of these options was \$10.32 per share (2010: \$10.39). The Company uses the Black-Scholes option pricing model to determine the valuation of these options and has applied the assumptions set forth in the following table.

	2011	2010	2009
Risk free rate	2.27%	2.94%	3.55%
Estimated volatility	35.00%	35.00%	30.00%
Expected term	10 years	10 years	10 years
Dividend yield	0.00%	0.00%	0.00%
Forfeiture rate	0.00%	0.00%	0.00%

The Company's shares have not been publicly traded for a sufficient length of time to reasonably estimate the expected volatility. Therefore, the Company determined the expected volatility based primarily on the historical volatility of a peer group of companies in the reinsurance industry while also considering the Company's own historical volatility in determining the expected volatility. If actual results differ significantly from these estimates and assumptions, particularly in relation to management's estimation of volatility which requires significant judgment, share-based compensation expense, primarily with respect to future share-based awards, could be materially impacted.

At the present time, the Board of Directors does not anticipate that any dividends will be declared during the expected term of the options. The Company uses graded vesting for expensing employee stock options. The total compensation cost expensed for the year ended December 31, 2011 related to employee and director stock options was \$0.5 million (2010: \$0.7 million, 2009: \$0.7 million). At December 31, 2011, the total compensation cost related to non-vested options not yet recognized was \$0.6 million (2010: \$0.6 million, 2009: \$0.5 million) to be recognized over a weighted average period of 1.7 years (2010: 1.3 years, 2009: 1.3 years) assuming the employees complete their service period for vesting of the options.

During the year ended December 31, 2011, no employee or director stock options were exercised and 60,000 stock options were forfeited by the former chief executive officer of the Company upon his retirement. In accordance with U.S. GAAP, stock compensation expense of \$0.3 million relating to the forfeited stock options, was reversed during the year ended December 31, 2011.

During the year ended December 31, 2010, 2,340 (2009: 57,000) employee and director stock options were exercised which had a weighted average exercise price of \$13.85 (2009: \$12.66). For any options exercised, the Company issues new Class A ordinary shares from the shares authorized for issuance as part of the Company's stock incentive plan. The intrinsic value of options exercised during the year ended December 31, 2010 was \$26,511 (2009: \$0.3 million).

Employee and director stock option activity during years ended December 31, 2011 and 2010 was as follows:

	Number of options	Weighted average exercise price	Weighted average grant date fair value
Balance at December 31, 2009	1,281,340	\$ 14.24	\$ 6.33

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Granted	80,000		32.42		10.39
Exercised	(2,340)		13.85		7.13
Forfeited	—		—		—
Expired	—		—		—
Balance at December 31, 2010	1,359,000	\$	15.31	\$	6.57
Granted	100,000		21.25		10.32
Exercised	—		—		—
Forfeited	(60,000)		31.09		9.01
Expired	—		—		—
Balance at December 31, 2011	1,399,000	\$	15.06	\$	6.73

At December 31, 2011, the weighted-average remaining contractual term for options outstanding was 4.9 years (2010: 5.7 years).

At December 31, 2011, 1,324,000 (2010: 1,239,000) stock options were exercisable. These options had a weighted-average exercise price of \$14.71 (2010: \$13.83) and a weighted-average remaining contractual term of 4.6 years (2010: 5.4 years).

The weighted average grant date fair value of options granted during the year ended December 31, 2011 was \$10.32 (2010: \$10.39, 2009: \$6.25). The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2011 was \$13.1 million and \$13.0 million, respectively (2010: \$16.4 million and \$16.4 million, respectively). During the year ended December 31, 2011, 85,000 (2010: 76,666, 2009: 256,332) options vested which had a weighted average grant date fair value of \$9.00 (2010: \$6.36, 2009: \$6.82).

[Back to Table of Contents](#)

## 11. NET INVESTMENT INCOME

	2011	2010 (\$ in thousands)		2009
Realized gains (losses) and change in unrealized gains and losses, net	\$ 57,088	\$ 134,280		\$ 232,410
Interest, dividend and other income	17,528	18,969		17,038
Interest, dividend and other expenses	(30,837)	(22,939)		(16,886)
Investment advisor compensation	(20,661)	(26,304)		(32,701)
Net investment income	\$ 23,118	\$ 104,006		\$ 199,861

## 12. TAXATION

The Company is domiciled in the Cayman Islands and 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 intends to conduct all of its operations in a manner that will not cause it to be treated as engaging in a trade or business within the United States and will not cause it to be subject to current U.S. federal income taxation on its net income. However, because there are no definitive standards provided by the Internal Revenue Code, regulations or court decisions as to the specific activities that constitute being engaged in the conduct of a trade or business within the United States, and as any such determination is essentially factual in nature, there can be no assurance that the IRS will not successfully assert that the Company is engaged in a trade or business within the U.S.

Verdant is incorporated in Delaware, and therefore is subject to taxes in accordance with the U.S. federal rates and regulations prescribed by the IRS. Verdant's taxable income is taxed at an effective tax rate of 35%. GRIL is incorporated in Ireland and, therefore, is subject to the Irish corporation tax. GRIL is taxed at a rate of 12.5% on its trading income.

For the year ended December 31, 2011, included in the consolidated balance sheet under other assets is a deferred tax asset of \$58,151 (2010: \$79,018) resulting solely from the temporary differences in recognition of expenses. An accrual has been recorded for current taxes payable in other liabilities in the consolidated balance sheet at December 31, 2011 for \$205,873 (2010: \$333,856). Based on the timing of the reversal of the temporary differences and likelihood of generating sufficient taxable income to realize the future tax benefit, management believes it is more likely than not that the deferred tax asset will be fully realized in the future and therefore no valuation allowance has been recorded. Neither Verdant nor GRIL has taken any income tax positions that are subject to uncertainty or that are reasonably likely to have a material impact to Verdant, GRIL or the Company.

The following table sets forth our current and deferred income tax benefit (expense) on a consolidated basis for the years ended December 31, 2011, 2010 and 2009:

	2011	2010 (\$ in thousands)		2009
Current tax expense	\$ (226)	\$ (406)		\$ (20)
Deferred tax (expense) benefit	(21)	10		69
Income tax (expense) benefit	\$ (247)	\$ (396)		\$ 49

## 13. RELATED PARTY TRANSACTIONS

Investment Advisory Agreement

The Company and its reinsurance subsidiaries are party to an Investment Advisory Agreement (the “Advisory Agreement”) with DME Advisors under which the Company, its reinsurance subsidiaries and DME Advisors created a joint venture for the purpose of managing certain jointly held assets. DME Advisors is a related party and an affiliate of David Einhorn, Chairman of the Company’s Board of Directors.

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 allocated, subject to a loss carry forward provision, to DME Advisors’ account. 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. For the year ended December 31, 2009, performance compensation paid to DME Advisors was at a reduced rate of 10%. During the fourth quarter of 2010, the loss carry forward balance was reduced to nil and as a result the performance compensation reverted to a rate of 20%. For the year ended December 31, 2011, included in net investment income (see Note 11) is performance compensation of \$5.4 million (2010: \$12.9 million, 2009: \$21.9 million) which was calculated at a rate of 20%.

Additionally, pursuant to the Advisory Agreement, a monthly management fee equal to 0.125% (1.5% on an annual basis) of the Company’s investment account managed by DME Advisors is paid to DME Advisors. Included in the net investment income for the year ended December 31, 2011 are management fees of \$15.2 million (2010: \$13.4 million, 2009: \$10.8 million). The management fees have been fully paid as of December 31, 2011.

[Back to Table of Contents](#)

Pursuant to the Advisory Agreement, the Company has agreed to indemnify DME Advisors for any expense, loss, liability, or damage arising out of any claim asserted or threatened in connection with DME Advisors serving as the Company's investment advisor. The Company will reimburse DME Advisors for reasonable costs and expenses of investigating and/or defending such claims provided such claims were not caused due to gross negligence, breach of contract or misrepresentation by DME Advisors. During the year ended December 31, 2011, there were no indemnification payments made by the Company.

#### Service Agreement

The Company has entered into a service agreement with DME Advisors, pursuant to which DME Advisors provides investor relations services to the Company for compensation of \$5,000 per month (plus expenses). The agreement is automatically renewed for one year periods until terminated by either the Company or DME Advisors for any reason with 30 days prior written notice to the other party.

### 14. COMMITMENTS AND CONTINGENCIES

#### Letters of Credit

At December 31, 2011, the Company had the following letter of credit facilities, which automatically renew each year unless terminated by either party in accordance with the required notice period:

	Facility (\$ in thousands)	Termination Date	Notice period required for termination
Bank of America, N.A	\$ 200,000	July 20, 2012	90 days prior to termination date
Butterfield Bank (Cayman) Limited	60,000	June 30, 2012	90 days prior to termination date
Citibank Europe plc	400,000	October 11, 2012	120 days prior to termination date
JP Morgan Chase Bank N.A	100,000	January 27, 2013	120 days prior to termination date
	\$ 760,000		

At December 31, 2011, an aggregate amount of \$382.8 million (2010: \$339.9 million) in letters of credit were issued under the above facilities. Under the facilities, the Company provides collateral that may consist of equity securities, restricted cash, and cash and cash equivalents. At December 31, 2011, total equity securities, restricted cash, and cash and cash equivalents with a fair value in the aggregate of \$410.5 million (December 31, 2010: \$349.6 million) were pledged as security against the letters of credit issued (also see Notes 4 and 6). Each of the facilities contain customary events of default and restrictive covenants, including but not limited to, limitations on liens on collateral, transactions with affiliates, mergers and sales of assets, as well as solvency and maintenance of certain minimum pledged equity requirements, 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 December 31, 2011 and 2010.

#### Operating Lease

The Company has entered into a lease agreement for 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 this lease as of December 31, 2011.

GRIL has entered into a lease agreement for office space in Dublin, Ireland. Under the terms of this lease agreement, GRIL is committed to average annual rent payments denominated in Euros approximating €67,528 per annum until May 2016 (net of rent inducements), and adjusted to the prevailing market rates for each of three subsequent five-year terms. GRIL has the option to terminate the lease agreement in 2016 and 2021. Included in the schedule below are the net minimum lease payment obligations relating to this lease as of December 31, 2011.

The total rent expense related to leased office space for the year ended December 31, 2011 was \$295,000 (2010: \$279,000, 2009: \$539,000).

#### Specialist Service Agreement

The Company has 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, the Company is obligated to make minimum payments for another two years 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.

[Back to Table of Contents](#)

## 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 December 31, 2011, the Company had commitments to invest an additional \$19.1 million (2010: \$14.1 million) in private equity investments. Included in the schedule below are the minimum payment obligations relating to these investments.

## Schedule of Commitments and Contingencies

The following is a schedule of future minimum payments required under the above commitments:

	2012	2013	2014	2015	2016	There after	Total
	(\$ in thousands)						
Operating lease obligations	\$ 372	\$ 372	\$ 372	\$ 372	\$ 312	\$ 415	\$ 2,215
Specialist service agreement	734	400	150	—	—	—	1,284
Private equity and limited partnerships (1)	19,079	—	—	—	—	—	19,079
	\$ 20,185	\$ 772	\$ 522	\$ 372	\$ 312	\$ 415	\$ 22,578

(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 the year ended December 31, 2012.

## Litigation

From time to time in the normal course of business, we may be involved in formal and informal dispute resolution procedures, which may include arbitration or litigation, the outcomes of which determine our rights and obligations under our reinsurance contracts and other contractual agreements. In some disputes, we may seek to enforce our rights under an agreement or to collect funds owing to us. In other matters, we may resist attempts by others to collect funds or enforce alleged rights. While the final outcome of legal disputes cannot be predicted with certainty, we do not believe that any existing dispute, when finally resolved, will have a material adverse effect on our business, financial condition or operating results.

## 15. SEGMENT REPORTING

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

Substantially all of the business is sourced through reinsurance brokers. The following table sets forth the premiums sourced from brokers who each accounted for more than 10% of the Company's gross written premiums for the years ended December 31, 2011, 2010 and 2009.

	2011		2010		2009	
	(\$ in thousands)					
Largest broker	\$ 139,251	35.0%	\$ 122,558	29.6%	\$ 79,419	30.7%
2nd largest broker	107,641	27.1	117,842	28.4	62,346	24.1
3rd largest broker	50,985	12.8	87,818	21.2	60,043	23.2
4th largest broker	49,398	12.4	—	—	—	—



\$347,275	87.3%	\$328,218	79.2%	\$201,808	78.0%
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F-26

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[Back to Table of Contents](#)

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 years ended December 31, 2011, 2010 and 2009:

## Gross Premiums Written by Line of Business

	2011		2010		2009 (1)	
	(\$ in thousands)					
Property						
Commercial lines	\$ 10,019	2.5%	\$ 15,468	3.7%	\$ 12,363	4.8%
Personal lines	158,482	39.9	185,216	44.7	48,183	18.6
Total property	168,501	42.4	200,684	48.4	60,546	23.4
Casualty						
General liability	34,379	8.6	42,979	10.4	28,273	10.9
Marine liability	360	0.1	483	0.1	—	—
Motor liability	86,937	21.9	55,278	13.3	95,335	36.9
Motor physical damage	7,026	1.8	3,712	0.9	—	—
Professional liability	20,631	5.2	8,877	2.1	4,650	1.8
Total Casualty	149,333	37.6	111,329	26.8	128,258	49.6
Specialty						
Financial	12,364	3.1	16,650	4.0	—	—
Health	38,640	9.7	66,649	16.1	48,955	18.9
Medical malpractice	—	—	(1,929) (2)	(0.5)	1,033	0.4
Workers' compensation	28,821	7.2	21,467	5.2	20,026	7.7
Total Specialty	79,825	20.0	102,837	24.8	70,014	27.0
	\$ 397,659	100.0%	\$ 414,850	100.0%	\$ 258,818	100.0%

(1) During 2010, the Company refined its method of presenting the lines of business and geographic area of risks insured within its one operating segment. The historical comparative balances for the year ended December 31, 2009 presented above have been reclassified to conform to the current period presentation.

(2) The negative balance represents reversal of premiums due to termination of contracts or premiums returned upon commutation of contracts.

## Gross Premiums Written by Geographic Area of Risks Insured

	2011		2010		2009	
	(\$ in thousands)					
USA	\$ 353,999	89.0%	\$ 374,330	90.2%	\$ 233,058	90.0%
Worldwide (1)	22,595	5.7	32,549	7.8	24,015	9.3
Europe	20,765	5.2	7,671	1.9	—	—
Caribbean	300	0.1	300	0.1	1,745	0.7
	\$ 397,659	100.0%	\$ 414,850	100.0%	\$ 258,818	100.0%

(1) "Worldwide" is comprised of contracts that reinsure risks in more than one geographic area and do not specifically exclude the USA.



[Back to Table of Contents](#)

## 16. QUARTERLY FINANCIAL RESULTS (UNAUDITED)

	2011			
	Quarter ended			
	March 31	June 30	September 30	December 31
	(\$ in thousands)			
<b>Revenues</b>				
Gross premiums written	\$ 100,739	\$ 113,266	\$ 93,156	\$ 90,498
Gross premiums ceded	(3,476)	(17,183)	(9,308)	(16,953)
Net premiums written	97,263	96,083	83,848	73,545
Changes in net unearned premium reserves	7,894	11,068	6,500	3,574
Net premiums earned	105,157	107,151	90,348	77,119
Net investment income (loss)	(36,176)	(19,469)	1,070	77,693
Other income (expense), net	(261)	(86)	184	416
Total revenues	68,720	87,596	91,602	155,228
<b>Expenses</b>				
Loss and loss adjustment expenses incurred, net	65,725	56,870	62,399	56,696
Acquisition costs, net	42,121	42,824	31,847	21,959
General and administrative expenses	4,999	4,336	1,532	3,025
Total expenses	112,845	104,030	95,778	81,680
Income (loss) from continuing operations before income tax expense	(44,125)	(16,434)	(4,176)	73,548
Income tax (expense) benefit	(1)	(40)	(148)	(58)
Net income (loss) before non-controlling interest	(44,126)	(16,474)	(4,324)	73,490
Net (income) loss attributable to non-controlling interest in joint venture	1,136	513	(156)	(3,290)
Net income (loss)	\$ (42,990)	\$ (15,961)	\$ (4,480)	\$ 70,200
<b>Earnings (loss) per share</b>				
Basic	\$ (1.19)	\$ (0.44)	\$ (0.12)	\$ 1.92
Diluted	(1.19)	(0.44)	(0.12)	1.89
Weighted average number of ordinary shares used in the determination of earnings and loss per share:				
Basic	36,118,963	36,153,743	36,153,743	36,536,976
Diluted	36,118,963	36,153,743	36,153,743	37,203,696

	2010			
	Quarter ended			
	March 31	June 30	September 30	December 31
	(\$ in thousands)			
<b>Revenues</b>				
Gross premiums written	\$ 66,887	\$ 88,956	\$ 151,247	\$ 107,760
Gross premiums ceded	(578)	(4,011)	(3,639)	(3,783)
Net premiums written	66,309	84,945	147,608	103,977

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Changes in net unearned premium reserves	)	)	)	)
	(10,993)	(35,544)	(68,207)	(394)
Net premiums earned	55,316	49,401	79,401	103,583
Net investment income (loss)	(16,831)	22,632	33,881	64,324
Other income (expense), net	(154)	(374)	(474)	(77)
Total revenues	38,331	71,659	112,808	167,830
Expenses				
Loss and loss adjustment expenses incurred, net	29,135	35,544	50,257	62,082
Acquisition costs, net	16,910	14,465	28,807	42,463
General and administrative expenses	5,147	3,094	3,392	4,554
Total expenses	51,192	53,103	82,456	109,099
Income (loss) from continuing operations before income tax expense	(12,861)	18,556	30,352	58,731
Income tax (expense) benefit	(9)	(50)	(25)	(312)
Net income (loss) before non-controlling interest	)	)	)	)
	(12,870)	18,506	30,327	58,419
Net (income) loss attributable to non-controlling interest in joint venture	479	(854)	(1,313)	(2,052)
Net income (loss)	\$ (12,391)	\$ 17,652	\$ 29,014	\$ 56,367
Earnings (loss) per share				
Basic	\$ (0.34)	\$ 0.48	\$ 0.80	\$ 1.55
Diluted	(0.34)	0.47	0.78	1.51
Weighted average number of ordinary shares used in the determination of earnings and loss per share:				
Basic	35,949,107	36,436,903	36,452,224	36,455,784
Diluted	35,949,107	37,218,783	37,218,906	37,362,378

[Back to Table of Contents](#)

## SCHEDULE I

GREENLIGHT CAPITAL RE, LTD.  
SUMMARY OF INVESTMENTS — OTHER THAN INVESTMENTS IN RELATED PARTIES  
AS OF DECEMBER 31, 2011

(expressed in thousands of U.S. dollars)

Type of Investment	Cost	Fair Value (\$ in thousands)	Balance Sheet Value
Debt instruments, trading, at fair value	\$ 11,555	\$ 10,639	\$ 10,639
Equity securities, trading, at fair value			
Common stocks, listed	827,435	830,789	830,789
Exchange traded funds	57,011	60,033	60,033
Total equity securities, trading, at fair value	884,446	890,822	890,822
Total investments, trading	\$ 896,001	\$ 901,461	\$ 901,461
Other investments, at fair value			
Private and unlisted equities securities	\$ 32,157	\$ 31,179	\$ 31,179
Commodities	65,365	97,506	97,506
Total other investments, at fair value	\$ 97,522	\$ 128,685	\$ 128,685
Total investments	\$ 993,523	\$ 1,030,146	\$ 1,030,146

[Back to Table of Contents](#)

## SCHEDULE II

GREENLIGHT CAPITAL RE, LTD.  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
CONDENSED BALANCE SHEETS — PARENT COMPANY ONLY

(expressed in thousands of U.S. dollars)

	December 31, 2011	December 31, 2010
	(\$ in thousands)	
Assets		
Cash and cash equivalents	\$ 25	\$ 25
Investment in subsidiaries	789,672	780,712
Due from subsidiaries	14,189	12,666
Total assets	\$ 803,886	\$ 793,403
Liabilities and shareholders' equity		
Liabilities		
Due to subsidiaries	\$ 783	\$ —
Total liabilities	783	—
Shareholders' equity		
Share capital	3,654	3,646
Additional paid-in capital	488,478	485,555
Retained earnings	310,971	304,202
Total shareholders' equity	803,103	793,403
Total liabilities and shareholders' equity	\$ 803,886	\$ 793,403

GREENLIGHT CAPITAL RE, LTD.  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
CONDENSED STATEMENTS OF INCOME — PARENT COMPANY ONLY

(expressed in thousands of U.S. dollars)

	Year ended December 31		
	2011	2010	2009
	(\$ in thousands)		
Revenue			
Investment income (loss)	\$ 740	\$ 56,407	\$ (42)
Other income, net	—	—	1,800
Total revenues	740	56,407	1,758
Expenses			
General and administrative expenses	2,884	4,088	3,432

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Net income (loss) before equity in earnings (loss) of consolidated subsidiaries	(2,144)	52,319	(1,674)
Equity in earnings of consolidated subsidiaries	8,913	38,323	211,219
Consolidated net income	\$ 6,769	\$ 90,642	\$ 209,545

F-30

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[Back to Table of Contents](#)

## SCHEDULE II (continued)

GREENLIGHT CAPITAL RE, LTD.  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
CONDENSED STATEMENTS OF CASH FLOWS — PARENT COMPANY ONLY

(expressed in thousands of U.S. dollars)

	Year Ended December 31,		
	2011	2010 (\$ in thousands)	2009
Cash provided by (used in)			
Operating activities			
Net income	\$ 6,769	\$ 90,642	\$ 209,545
Adjustments to reconcile net income (loss) to cash provided by operating activities			
Equity in earnings of consolidated subsidiaries	(8,913)	(38,323)	(211,219)
Share-based compensation expense	2,876	4,088	3,410
Change in			
Due from subsidiaries	(1,523)	(53)	(12,613)
Due to subsidiaries	783	(16,536)	13,711
Total operating activities	(8)	39,818	2,834
Investing activity			
Contributed surplus to subsidiaries, net	—	(40,000)	(3,000)
Financing activities			
Issue of Class A ordinary shares, net of forfeitures	8	—	28
Net proceeds from exercise of stock options	—	32	716
Options repurchased	—	—	(440)
Total financing activities	8	32	304
Net (decrease) increase in cash and cash equivalents	—	(150)	138
Cash and cash equivalents at beginning of the year	25	175	37
Cash and cash equivalents at end of the year	\$ 25	\$ 25	\$ 175

[Back to Table of Contents](#)

## SCHEDULE III

GREENLIGHT CAPITAL RE, LTD.  
SUPPLEMENTARY INSURANCE INFORMATION  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(expressed in thousands of U.S. dollars)

Year and Segment	Deferred acquisition costs, net	Reserves for losses and loss adjustment expenses – gross	Unearned premiums – gross	Net premiums earned	Net investment income (loss)	Net losses and adjustment expenses	Amortization of deferred acquisition costs	Other operating expenses	Gross premiums written
2011									
Property & Casualty	\$ 68,725	\$ 241,279	\$ 225,735	\$ 379,775	\$ 23,118	\$ 241,690	\$ 138,751	\$ 13,892	\$ 379,659
2010									
Property & Casualty	\$ 87,389	\$ 186,467	\$ 234,983	\$ 287,701	\$ 104,006	\$ 177,018	\$ 102,645	\$ 16,187	\$ 414,850
2009									
Property & Casualty	\$ 34,401	\$ 137,360	\$ 118,899	\$ 214,680	\$ 199,861	\$ 119,045	\$ 69,232	\$ 18,994	\$ 258,818

## SCHEDULE IV

GREENLIGHT CAPITAL RE, LTD.  
SUPPLEMENTARY REINSURANCE INFORMATION  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(expressed in thousands of U.S. dollars)

Year and Segment	Direct gross premiums	Premiums ceded to other companies	Premiums assumed from other companies	Net amount	Percentage of amount assumed to net
2011 Property & Casualty	\$ —	\$ 46,920	\$ 397,659	\$ 350,739	113%

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2010 Property & Casualty	\$	—\$	12,011	\$	414,850	\$	402,839	103%
2009 Property & Casualty	\$	—\$	13,276	\$	258,818	\$	245,542	105%

F-32

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