GREENLIGHT CAPITAL RE, LTD.
Form 10-Q
October 30, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from to
Commission file number 001-33493

GREENLIGHT CAPITAL RE, LTD.
(Exact name of registrant as specified in its charter)

CAYMAN ISLANDS	N/A
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
65 MARKET STREET SUITE 1207, CAMANA BAY P.O. BOX 31110 GRAND CAYMAN CAYMAN ISLANDS	KY1-1205
(Address of principal executive offices)	(Zip code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

Yes x No ¨

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

Large accelerated filer x Accelerated filer ¨

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

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

Yes ¨ No x

Class A Ordinary Shares, $0.10 par value	30,626,115
Class B Ordinary Shares, $0.10 par value	6,254,949
(Class)	Outstanding as of October 25, 2013

GREENLIGHT CAPITAL RE, LTD.

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

September 30, 2013 and December 31, 2012
(expressed in thousands of U.S. dollars, except per share and share amounts)

	September 30, 2013 (unaudited)	December 31, 2012 (audited)
Assets		
Investments		
Debt instruments, trading, at fair value	$12,499	$1,763
Equity securities, trading, at fair value	1,030,207	1,042,715
Other investments, at fair value	107,246	133,450
Total investments	1,149,952	1,177,928
Cash and cash equivalents	83,683	21,890
Restricted cash and cash equivalents	1,316,584	1,206,837
Financial contracts receivable, at fair value	85,555	22,744
Reinsurance balances receivable	195,064	173,221
Loss and loss adjustment expenses recoverable	17,996	34,451
Deferred acquisition costs, net	62,083	59,177
Unearned premiums ceded	3,143	3,616
Notes receivable	15,784	19,330
Other assets	4,048	3,559
Total assets	$2,933,892	$2,722,753
Liabilities and equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$1,065,072	$908,368
Financial contracts payable, at fair value	17,962	19,637
Due to prime brokers	239,074	326,488
Loss and loss adjustment expense reserves	325,652	356,470
Unearned premium reserves	191,310	188,185
Reinsurance balances payable	38,922	35,292
Funds withheld	9,469	17,415
Other liabilities	12,018	10,488
Performance compensation payable to related party	33,818	—
Total liabilities	1,933,297	1,862,343
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, 30,622,458 (2012: 30,447,179): Class B: par value $0.10; authorized, 25,000,000; issued and outstanding, 6,254,949 (2012: 6,254,949))	3,688	3,670
Additional paid-in capital	495,610	492,469
Retained earnings	467,338	325,569
Shareholders' equity attributable to shareholders	966,636	821,708
Non-controlling interest in joint venture	33,959	38,702

Total equity	1,000,595	860,410
Total liabilities and equity	$2,933,892	$2,722,753

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

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

For the three and nine months ended September 30, 2013 and 2012
(expressed in thousands of U.S. dollars, except per share and share amounts)

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Revenues				
Gross premiums written	$148,765	$67,644	$410,927	$303,850
Gross premiums ceded	(2,389)	30,637	(925)	24,244
Net premiums written	146,376	98,281	410,002	328,094
Change in net unearned premium reserves	17,515	18,276	(3,640)	20,065
Net premiums earned	163,891	116,557	406,362	348,159
Net investment income	49,448	96,450	134,834	131,161
Other income (expense), net	(1)	191	(100)	(256)
Total revenues	213,338	213,198	541,096	479,064
Expenses				
Loss and loss adjustment expenses incurred, net	94,366	126,624	238,989	277,268
Acquisition costs, net	53,521	33,820	137,753	107,751
General and administrative expenses	7,085	4,637	16,788	13,619
Total expenses	154,972	165,081	393,530	398,638
Income before income tax expense	58,366	48,117	147,566	80,426
Income tax expense	(90)	(645)	(540)	(707)
Net income including non-controlling interest	58,276	47,472	147,026	79,719
Income attributable to non-controlling interest in joint venture	(1,740)	(1,335)	(5,257)	(4,518)
Net income	$56,536	$46,137	$141,769	$75,201
Earnings per share				
Basic	$1.53	$1.26	$3.85	$2.05
Diluted	$1.50	$1.23	$3.78	$2.01
Weighted average number of ordinary shares used in the determination of earnings per share				
Basic	36,875,716	36,678,653	36,820,199	36,630,136
Diluted	37,645,053	37,402,725	37,541,623	37,360,049

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

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

For the nine months ended September 30, 2013 and 2012
(expressed in thousands of U.S. dollars)

	Ordinary share capital	Additional paid-in capital	Retained earnings	Shareholders' equity attributable to shareholders	Non-controlling interest in joint venture	Total equity
Balance at December 31, 2011	$3,654	$488,478	$310,971	$803,103	$ 42,595	$845,698
Issue of Class A ordinary shares, net of forfeitures	14	—	—	14	—	14
Share-based compensation expense, net of forfeitures	—	2,784	—	2,784	—	2,784
Non-controlling interest withdrawal from joint venture, net	—	—	—	—	(34,000)	(34,000)
Income attributable to non-controlling interest in joint venture	—	—	—	—	4,518	4,518
Net income	—	—	75,201	75,201	—	75,201
Balance at September 30, 2012	$3,668	$491,262	$386,172	$881,102	$ 13,113	$894,215
Balance at December 31, 2012	$3,670	$492,469	$325,569	$821,708	$ 38,702	$860,410
Issue of Class A ordinary shares, net of forfeitures	18	509	—	527	—	527
Share-based compensation expense, net of forfeitures	—	2,632	—	2,632	—	2,632
Non-controlling interest withdrawal from joint venture, net	—	—	—	—	(10,000)	(10,000)
Income attributable to non-controlling interest in joint venture	—	—	—	—	5,257	5,257
Net income	—	—	141,769	141,769	—	141,769
Balance at September 30, 2013	$3,688	$495,610	$467,338	$966,636	$ 33,959	$1,000,595

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

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
For the nine months ended September 30, 2013 and 2012
(expressed in thousands of U.S. dollars)

	Nine months ended September 30	
	2013	2012
Cash provided by (used in) operating activities		
Net income	$141,769	$75,201
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	(69,660)	(168,321)
Net realized (gains) losses on investments and financial contracts	(117,271)	(18,542)
Foreign exchange (gains) losses on restricted cash and cash equivalents, net	(15,205)	(218)
Income attributable to non-controlling interest in joint venture	5,257	4,518
Share-based compensation expense, net of forfeitures	2,646	2,798
Depreciation expense	222	188
Net change in		
Reinsurance balances receivable	(21,843)	(43,790)
Loss and loss adjustment expenses recoverable	16,455	(4,248)
Deferred acquisition costs, net	(2,906)	10,990
Unearned premiums ceded	473	21,192
Other assets	(27)	1,751
Loss and loss adjustment expense reserves	(30,818)	108,116
Unearned premium reserves	3,125	(40,682)
Reinsurance balances payable	3,630	4,097
Funds withheld	(7,946)	(19,598)
Other liabilities	1,530	206
Performance compensation payable to related party	33,818	31,646
Net cash used in operating activities	(56,751)	(34,696)
Investing activities		
Purchases of investments, trading	(540,222)	(628,887)
Sales of investments, trading	790,513	640,943
Purchases of financial contracts	(57,748)	(43,416)
Dispositions of financial contracts	67,282	17,664
Securities sold, not yet purchased	700,299	726,902
Dispositions of securities sold, not yet purchased	(652,999)	(367,478)
Change in due to prime brokers	(87,414)	36,380
Change in restricted cash and cash equivalents, net	(94,542)	(331,754)
Change in notes receivable, net	3,546	(1,641)
Non-controlling interest withdrawal from joint venture	(10,000)	(34,000)
Fixed assets additions	(684)	—
Net cash provided by investing activities	118,031	14,713
Financing activities		
Net proceeds from exercise of stock options	513	—
Net cash provided by financing activities	513	—

Net (decrease) increase in cash and cash equivalents	61,793	(19,983)
Cash and cash equivalents at beginning of the period	21,890	42,284
Cash and cash equivalents at end of the period	$83,683	$22,301
Supplementary information		
Interest paid in cash	$19,907	$17,765
Interest received in cash	793	855
Income tax paid in cash	260	206

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

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

September 30, 2013

1. ORGANIZATION AND BASIS OF PRESENTATION

Greenlight Capital Re, Ltd. ("GLRE") was incorporated as an exempted company under the Companies Law of the Cayman Islands on July 13, 2004. GLRE's principal wholly-owned subsidiary, Greenlight Reinsurance, Ltd. ("Greenlight Re"), provides global specialty property and casualty reinsurance. Greenlight Re has a Class D insurer license issued in accordance with the terms of The Insurance Law, 2010 and underlying regulations thereto (the "Law") and is subject to regulation by the Cayman Islands Monetary Authority, ("CIMA"), in terms of the Law. Greenlight Re commenced underwriting in April 2006. Effective May 30, 2007, GLRE completed an initial public offering of 11,787,500 Class A ordinary shares at $19.00 per share. Concurrently, 2,631,579 Class B ordinary shares of GLRE were sold at $19.00 per share in a private placement offering. During 2008, Verdant Holding Company, Ltd. ("Verdant"), a wholly owned subsidiary of GLRE, was incorporated in the state of Delaware. During 2010, GLRE established Greenlight Reinsurance Ireland, Ltd. ("GRIL"), a wholly-owned reinsurance subsidiary based in Dublin, Ireland. GRIL is authorized as a non-life reinsurance undertaking in accordance with the provisions of the European Communities (Reinsurance) Regulations 2006 ("Irish Regulations"). GRIL provides multi-line property and casualty reinsurance capacity to the European broker market and provides GLRE with an additional platform to serve clients located in Europe and North America. As used herein, the "Company" refers collectively to GLRE and its subsidiaries.

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

These unaudited condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2012. In the opinion of management, these unaudited condensed consolidated financial statements reflect all of the normal recurring adjustments considered necessary for a fair presentation of the Company's financial position and results of operations as of the dates and for the periods presented.
The results for the nine months ended September 30, 2013 are not necessarily indicative of the results expected for the full calendar year.

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 period. Actual results could differ from these estimates.

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 8). 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.

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Deferred Acquisition Costs

Policy acquisition costs, such as commission and brokerage costs, relate directly to, and vary with, the writing of reinsurance contracts. Acquisition costs relating solely to bound contracts are deferred subject to ultimate recoverability and are amortized over the related contract term. The Company evaluates the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment income is greater than the expected future claims and expenses. If a loss is probable on the unexpired portion of policies in force, a premium deficiency loss is recognized. At September 30, 2013 and December 31, 2012, the deferred acquisition costs were considered fully recoverable and no premium deficiency loss was recorded.

Acquisition costs also include profit commissions, which are expensed when incurred. Profit commissions are calculated and accrued based on the expected loss experience for contracts and recorded when the current loss estimate indicates that a profit commission is probable under the contract terms. As of September 30, 2013, $10.9 million (December 31, 2012: $9.6 million) of profit commission reserves were included in reinsurance balances payable on the condensed consolidated balance sheets. For the three and nine months ended September 30, 2013, $0.9 million and $2.1 million (2012: $0.9 million and $1.3 million) of net profit commission expenses were included in acquisition costs, respectively, on the condensed consolidated statements of income.

Loss and Loss Adjustment Expense Reserves and Recoverable

The Company establishes reserves for contracts based on estimates of the ultimate cost of all losses including losses incurred but not reported ("IBNR"). These estimated ultimate reserves are based on the Company’s own actuarial estimates derived from reports received from ceding companies, industry data and historical experience. These estimates are reviewed by the Company periodically on a contract by contract basis and adjusted as necessary. Since reserves are estimates, the final settlement of losses may vary from the reserves established and any adjustments to the estimates, which may be material, are recorded in the period they are determined.

Loss and loss adjustment expenses recoverable include the amounts due from retrocessionaires for unpaid loss and loss adjustment expenses on retrocession agreements. Ceded losses incurred but not reported are estimated based on the Company’s actuarial estimates. These estimates are reviewed periodically and adjusted when deemed necessary. The Company may not be able to ultimately recover the loss and loss adjustment expense recoverable amounts due to the retrocessionaires’ inability to pay. The Company regularly evaluates the financial condition of its retrocessionaires and records provisions for uncollectible reinsurance expenses recoverable when recovery is no longer probable.

Notes Receivable

Notes receivable include promissory notes receivable from third party entities. These notes are recorded at cost along with accrued interest, if any, which approximates the fair value. 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 nine months ended September 30, 2013, the notes receivable earned interest at annual interest rates ranging from 10.0% to 16.0% and had remaining maturity terms ranging from approximately 2 years to 6 years. Interest income earned on notes receivable is included under net investment income in the condensed consolidated statements of income.

At September 30, 2013, included in the notes receivable balance was $10.5 million (December 31, 2012: $16.5 million), related to a note placed on non-accrual status based on expectations of the Company's ability to collect any interest that would accrue up to maturity. For the nine months ended September 30, 2013 and 2012, no interest was received relating to the notes placed on non-accrual status. During the nine months ended September 30, 2013 and 2012, the Company recorded an impairment charge of $6.0 million and nil, respectively, relating to the accrued interest and principal on the note placed on non-accrual status. There were no impairment charges for the three months ended September 30, 2013 and 2012. Impairment charges are included under net investment income in the condensed consolidated statements of income.

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At September 30, 2013, included in the notes receivable balance was $0.1 million of accrued interest (December 31, 2012: $2.0 million). Based on management's assessment, the recorded values of the notes receivable, net of valuation allowance, at September 30, 2013 and December 31, 2012, were expected to be fully collectible and therefore no other provision for uncollectible amounts was deemed necessary at September 30, 2013 or December 31, 2012.

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 condensed consolidated balance sheets. Amortized gains are recorded in the condensed consolidated statements of income as other income. At September 30, 2013, included in the condensed consolidated balance sheets under reinsurance balances receivable and reinsurance balances payable were $2.5 million and $0 of deposit assets and deposit liabilities (December 31, 2012: $5.1 million and $0.7 million), respectively. For the three and nine months ended September 30, 2013, $0.0 million and $0.5 million, respectively, was included in other income (expense), net, relating to losses on deposit accounted contracts (2012: $0.0 million and $0.2 million). For the three and nine months ended September 30, 2013 and 2012, there were no gains on deposit accounted contracts.

Fixed Assets

Fixed assets are included in other assets on the condensed consolidated balance sheets and are recorded at cost when acquired. 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 September 30, 2013, 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	620	(309)	311
Leasehold improvements	2,002	(637)	1,365
Total	$2,822	$(1,146)	$1,676

At December 31, 2012, 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	(232)	219
Leasehold improvements	1,487	(492)	995
Total	$2,138	$(924)	$1,214

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 nine months ended September 30, 2013 and 2012, there were no impairments in fixed assets.

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Financial Instruments

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

The Company’s investments in debt instruments and equity securities that are classified as "trading securities" are carried at fair value. The fair values of the listed equity investments are derived based on quoted prices (unadjusted) in active markets for identical assets (Level 1 inputs). The fair values of listed equities that have restrictions on sale or transfer which expire within one year, are determined by adjusting the observed market price of the equity using a liquidity discount based on observable market inputs. The fair values of debt instruments are derived based on inputs that are observable, either directly or indirectly, such as market maker or broker quotes reflecting recent transactions (Level 2 inputs), and are generally derived based on the average of multiple market maker or broker quotes which are considered to be binding. Where quotes are not available, debt instruments are valued using cash flow models using assumptions and estimates that may be subjective and non-observable (Level 3 inputs).

The Company’s "other investments" may include investments in private and unlisted equity securities, limited partnerships, and commodities, which are all carried at fair value. The fair values of commodities are determined based on quoted prices in active markets for identical assets (Level 1). The Company maximizes the use of observable direct or indirect inputs (Level 2 inputs) when deriving the fair values for "other investments". For limited partnerships and private and unlisted equity securities, where observable inputs are not available, the fair values are derived based on unobservable inputs (Level 3 inputs) such as management’s assumptions developed from available information using the services of the investment advisor, including the most recent net asset values obtained from the managers of those underlying investments.

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

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

Derivative Financial Instruments

U.S. GAAP requires that an entity recognize all derivatives in the balance sheet at fair value. It also requires that unrealized gains and losses resulting from changes in fair value be included in income or comprehensive income, depending on whether the instrument qualifies as a hedge transaction, and if so, the type of hedge transaction. The Company’s derivative financial instrument assets are included in financial contracts receivable. Derivative financial instrument liabilities are generally included in financial contracts payable. The Company's derivatives do not qualify as hedges for financial reporting purposes and are recorded in the condensed consolidated balance sheets on a gross basis and not offset against any collateral pledged or received. Pursuant to the International Swaps and Derivatives Association ("ISDA") master agreements, securities lending agreements and other derivatives agreements, the Company and its counterparties typically have the ability to net certain payments owed to each other in specified circumstances. In addition, in the event a party to one of the ISDA master agreements, securities lending agreements or other derivatives agreements defaults, or a transaction is otherwise subject to termination, the non-defaulting party generally has the right to set off against payments owed to the defaulting party or collateral held by the non-defaulting party.

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, based upon the contract's current fair value, the Company will be entitled to receive payments upon settlement of the contract. Financial contracts payable represents derivative contracts whereby, based upon the contract's current fair value, the Company will be obligated to make payments upon settlement of the contract.

Total return swap agreements, included on the condensed consolidated balance sheets as financial contracts receivable and financial contracts payable, are derivative financial instruments whereby the Company is either entitled to receive or obligated to pay the product of a notional amount multiplied by the movement in an underlying security, which the Company may not own, over a specified time frame. In addition, the Company may also be obligated to pay or receive other payments

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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 condensed consolidated statements of income.

Financial contracts may also include exchange traded futures or options contracts that are based on the movement of a particular index, equity security, commodity, currency or interest rate. Where such contracts are traded in an active market, the Company’s obligations or rights on these contracts are recorded at fair value based on the observable quoted prices of the same or similar financial contracts in an active market (Level 1) or on broker quotes which reflect market information based on actual transactions (Level 2). Amounts invested in exchange traded options and over the counter ("OTC") options are recorded either as an asset or liability at inception. Subsequent to initial recognition, unexpired exchange traded option contracts are recorded at fair value based on quoted prices in active markets (Level 1). For OTC options or exchange traded options where a quoted price in an active market is not available, fair values are derived based upon observable inputs (Level 2) such as multiple quotes from brokers and market makers, which are considered to be binding.

The Company purchases and sells CDS for strategic investment purposes. A CDS is a derivative instrument that provides protection against an investment loss due to specified credit or default events of a reference entity. The seller of a CDS guarantees to pay the buyer a specified amount if the reference entity defaults on its obligations or fails to perform. The buyer of a CDS pays a premium over time to the seller in exchange for obtaining this protection. A CDS trading in an active market is valued at fair value based on broker or market maker quotes for identical instruments in an active market (Level 2) or based on the current credit spreads on identical contracts (Level 2).

Comprehensive Income (Loss)

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

Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings per share includes the dilutive effect of restricted stock units ("RSU") and additional potential common shares issuable when stock options are exercised and are determined using the treasury stock method. The Company treats its unvested restricted stock as participating securities in accordance with U.S. GAAP, which requires that unvested stock awards which contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (referred to as "participating securities"), be included in the number of shares outstanding for both basic and diluted earnings per share calculations. In the event of a net loss, all RSUs, stock options outstanding and all participating securities are excluded from the calculation of both basic and diluted loss per share since their inclusion would be anti-dilutive.

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Weighted average shares outstanding - basic	36,875,716	36,678,653	36,820,199	36,630,136
Effect of dilutive service provider share-based awards	157,281	147,659	150,039	148,518
	612,056	576,413	571,385	581,395

Effect of dilutive employee and director share-based awards				
Weighted average share outstanding - diluted	37,645,053	37,402,725	37,541,623	37,360,049
Anti-dilutive stock options outstanding	180,000	180,000	218,197	180,000

Taxation

Under current Cayman Islands law, no corporate entity, including GLRE and Greenlight Re, is obligated to pay taxes in the Cayman Islands on either income or capital gains. The Company has an undertaking from the Governor-in-Cabinet of the Cayman Islands, pursuant to the provisions of the Tax Concessions Law, as amended, that, in the event that the Cayman Islands enacts any legislation that imposes tax on profits, income, gains or appreciations, or any tax in the nature of estate duty or

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inheritance tax, such tax will not be applicable to GLRE, Greenlight Re nor their respective operations, or to the Class A or Class B ordinary shares or related obligations, until February 1, 2025.

Verdant is incorporated in Delaware and therefore is subject to taxes in accordance with the U.S. federal rates and regulations prescribed by the U.S. Internal Revenue Service. 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.

Recently Adopted Accounting Standards

In January 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-01 ("ASU 2013-01"), Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU 2013-01 clarifies the scope of Accounting Standards Update No. 2011-11 ("ASU 2011-11"), Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 originally required enhanced disclosures by requiring improved information about financial instruments and derivative instruments. ASU 2013-01 clarifies that ASU 2011-11 applies to derivatives including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. ASU 2013-01 also clarifies that other types of financial assets and financial liabilities subject to a master netting arrangement are no longer subject to the disclosure requirements of ASU 2011-11. ASU 2011-11 and ASU 2013-01 became effective for the Company during the first quarter of 2013 with retrospective disclosure required for all comparative periods presented. The adoption of ASU 2011-11 and ASU 2013-01 did not have a material impact on the Company’s results of operations or financial position as it only affected the Company's disclosures.

3. FINANCIAL INSTRUMENTS

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

Fair Value Hierarchy

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

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The following table presents the Company's investments, categorized by the level of the fair value hierarchy as of September 30, 2013:

Description	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	Fair value measurements as of September 30, 2013			
Assets:	($ in thousands)			
Debt instruments	$—	$4,057	$8,442	$12,499
Listed equity securities	1,023,312	6,895	—	1,030,207
Commodities	67,149	—	—	67,149
Private and unlisted equity securities	—	—	40,097	40,097
Financial contracts receivable	715	84,840	—	85,555
	$1,091,176	$95,792	$48,539	$1,235,507
Liabilities:				
Listed equity securities, sold not yet purchased	$(873,594)	$—	$—	$(873,594)
Debt instruments, sold not yet purchased	—	(191,478)	—	(191,478)
Financial contracts payable	—	(17,962)	—	(17,962)
	$(873,594)	$(209,440)	$—	$(1,083,034)

The following table presents the Company's investments, categorized by the level of the fair value hierarchy as of December 31, 2012:

Description	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	Fair value measurements as of December 31, 2012			
Assets:	($ in thousands)			
Debt instruments	$—	$1,503	$260	$1,763
Listed equity securities	1,040,562	2,153	—	1,042,715
Commodities	94,649	—	—	94,649
Private and unlisted equity securities	—	—	38,801	38,801
Financial contracts receivable	—	22,744	—	22,744
	$1,135,211	$26,400	$39,061	$1,200,672
Liabilities:				
Listed equity securities, sold not yet purchased	$(679,897)	$—	$—	$(679,897)
Debt instruments, sold not yet purchased	—	(228,471)	—	(228,471)
Financial contracts payable	—	(19,637)	—	(19,637)
	$(679,897)	$(248,108)	$—	$(928,005)

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The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2013:

2013	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three months ended September 30			Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Nine months ended September 30		
	Debt instruments	Private and unlisted equity securities	Total	Debt instruments	Private and unlisted equity securities	Total
	($ in thousands)			($ in thousands)		
Beginning balance	$4,838	$43,257	$48,095	$260	$38,801	$39,061
Purchases	3,604	416	4,020	8,230	31,756	39,986
Sales	—	(829)	(829)	(28)	(6,934)	(6,962)
Issuances	—	—	—	—	—	—
Settlements	—	—	—	—	—	—
Total realized and unrealized gains (losses) and amortization included in earnings, net	—	2,198	2,198	(20)	1,055	1,035
Transfers into Level 3	—	—	—	—	—	—
Transfers out of Level 3	—	(4,945)	(4,945)	—	(24,581)	(24,581)
Ending balance	$8,442	$40,097	$48,539	$8,442	$40,097	$48,539

During the three and nine months ended September 30, 2013,$4.9 million of securities, at fair value based on the date of transfer, were transferred from Level 3 to Level 2, as these securities began actively trading on a listed exchange during the third quarter of 2013. However due to lock-up restrictions on these securities, they were classified as Level 2 upon transfer until the lock-up period expires. Additionally, during the nine months ended September 30, 2013, $19.6 million of securities at fair value based on the date of transfer, were transferred from Level 3 to Level 1 as these securities began actively trading on a listed exchange and there were no lock-up restrictions on these securities. During the nine months ended September 30, 2013, $2.4 million of securities at fair value based on the date of transfer, were transferred from Level 2 to Level 1 as the lock-up period restrictions on those securities expired.

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The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2012:

2012	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three months ended September 30				Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Nine months ended September 30			
	Debt instruments	Private and unlisted equity securities	Financial contracts receivable	Total	Debt instruments	Private and unlisted equity securities	Financial contracts receivable	Total
	($ in thousands)				($ in thousands)			
Beginning balance	$343	$38,805	$14	$39,162	$465	$31,179	$263	$31,907
Purchases	—	365	—	365	—	7,277	—	7,277
Sales	—	(300)	—	(300)	(1)	(792)	—	(793)
Issuances	—	—	—	—	—	—	—	—
Settlements	—	—	—	—	—	—	—	—
Total realized and unrealized gains (losses) and amortization included in earnings, net	(4)	945	(14)	927	(125)	3,299	(263)	2,911
Transfers into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	(3,828)	—	(3,828)	—	(4,976)	—	(4,976)
Ending balance	$339	$35,987	$—	$36,326	$339	$35,987	$—	$36,326

During the three and nine months ended September 30, 2012, $1.0 million and $30.4 million, respectively, of securities at fair value based on the date of transfer, were transferred from Level 2 to Level 1 as the lock-up period restrictions on those securities expired. Additionally, for the three and nine months ended September 30, 2012, $3.8 million and $5.0 million, respectively, of securities at fair value based on the date of transfer, were transferred from Level 3 to Level 2, as these securities began actively trading on a listed exchange during the second quarter of 2012. However, due to lock-up period restrictions on these securities, a liquidity discount was used in determining their fair value at September 30, 2012, and therefore classified as Level 2.

There were no other transfers between Level 1, Level 2 or Level 3 during the three and nine months ended September 30, 2013 or 2012.

For the three and nine months ended September 30, 2013, included in net investment income in the condensed consolidated statements of income were realized gains relating to Level 3 securities of $0.3 million and $0.6 million, respectively (2012: realized gains of $0.1 million and $0.4 million, respectively). For Level 3 classified securities held as of the reporting date, the change in unrealized gains for the three and nine months ended September 30, 2013 were $1.2 million and $(1.5) million, respectively (2012: $0.8 million and $2.6 million, respectively).

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Investments

Debt instruments, trading

At September 30, 2013, the following investments were included in debt instruments:

2013	Cost/ amortized cost	Unrealized gains	Unrealized losses		Fair value
	($ in thousands)				
Corporate debt – U.S.	$10,318	$—	$(1,876	)	$8,442
Corporate debt – Non U.S.	3,761	306	(10	)	4,057
Total debt instruments	$14,079	$306	$(1,886	)	$12,499

At December 31, 2012, the following investments were included in debt instruments:

2012	Cost/ amortized cost	Unrealized gains	Unrealized losses		Fair value
	($ in thousands)				
Corporate debt – U.S.	$2,317	$205	$(1,856	)	$666
Corporate debt – Non U.S.	1,179	—	(82	)	1,097
Total debt instruments	$3,496	$205	$(1,938	)	$1,763

The maturity distribution for debt instruments held at September 30, 2013 and December 31, 2012 was as follows:

	2013		2012	
	Cost/ amortized cost	Fair value	Cost/ amortized cost	Fair value
	($ in thousands)			
Within one year	$8,202	$8,202		