GREENLIGHT CAPITAL RE, LTD.
Form 10-K
February 24, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from to

Commission file number 001-33493

Greenlight Capital Re, Ltd.
(Exact Name of Registrant as Specified in Its Charter)

Cayman Islands	N/A
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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 o No x

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 o No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of 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 o No o

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. x

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of voting and non-voting Class A ordinary shares held by non-affiliates of the registrant as of June 30, 2009 was $446,315,726 based on the closing price of the registrant's Class A ordinary shares reported on the Nasdaq Global Select Market on June 30, 2009, 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 February 1, 2010, there were 30,063,893 Class A ordinary shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's 2010 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 28, 2010 are incorporated by reference in Part III of this annual report on Form 10-K.

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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,’’ ‘‘anticipa
‘‘estimate,’’ ‘‘intend,’’ ‘‘plan,’’ ‘‘may,’’ ‘‘should,’’ ‘‘will,’’ ‘‘would,’’ ‘‘will be,’’ ‘‘will continue,’’ ‘‘will likely result,’’ and s
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;
- The property and casualty reinsurance market may be affected by cyclical trends;
- Rating agencies may downgrade or withdraw our rating;
- Loss of key executives could adversely impact our ability to implement our business strategy;
- Currency fluctuations could result in exchange rate losses and negatively impact our business; and
- We depend on DME Advisors, LP, or DME Advisors, to implement our investment strategy.

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 statement 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 to the Company's operations or financial position.

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 consolid 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.
Verdant	Verdant Holding Company, Ltd.

Company Overview

Greenlight Capital Re is a holding company that was incorporated in July 2004 under the laws of 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, ("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.

The Company, through its operating subsidiary, Greenlight Re, is a Cayman Islands-based 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.

Verdant Holding Company, Ltd (“Verdant”), a wholly owned subsidiary of Greenlight Capital Re, Ltd, is incorporated in the state of Delaware principally for the purpose of making strategic investments in a select group of property and casualty insurers and general agents in the U.S.

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 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 administers each reinsurance contract rather than separating underwriting and administrative 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.

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 strategy 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, 2010 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.

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 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:

- targeting markets where capacity and alternatives are underserved or constrained;
- seeking clients with appropriate expertise in their line of business;
- employing strict underwriting discipline;
- selecting reinsurance opportunities with favorable returns on equity over the life of the contract; and
- strengthening and expanding relationships with existing clients.

The following table sets forth our gross premiums written by line of business for the years ended December 31, 2009, 2008 and 2007:

	2009		2008			2007	
			($ in thousands)				
Property							
Commercial lines	$ 26,113	10.1%	$ 13,591		8.4%	$ 17,532	13.8%
Personal lines	34,434	13.3	(4,071)	(1)	(2.5)	41,291	32.5
Casualty							
General liability	40,320	15.6	16,948		10.4	17,597	13.8
Motor liability	78,161	30.2	72,578		44.7	795	0.6
Professional liability	12	—	2,150		1.3	27,230	21.4
Specialty							

Health	47,749	18.4	40,210	24.7	16,489	13.0
Medical malpractice	5,703	2.2	4,641	2.9	6,197	4.9
Workers' compensation	26,326	10.2	16,348	10.1	—	—
	$ 258,818	100.0%	$ 162,395	100.0%	$ 127,131	100.0%

(1) Represents our share of gross return premiums based on updated information received from client.

The following table sets forth our gross premiums written by the geographic area of the risk insured for the years ended December 31, 2009, 2008 and 2007:

	2009		2008		2007	
			($ in thousands)			
USA	$ 233,058	90.0%	$ 142,604	87.8%	$ 79,647	62.6%
Worldwide(1)	24,015	9.3	18,991	11.7	44,722	35.2
Europe	—	—	—	—	2,157	1.7
Caribbean	1,745	0.7	800	0.5	605	0.5
	258,818	100.0%	$ 162,395	100.0%	$ 127,131	100.0%

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

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 and captive insurance companies located in the Cayman Islands. 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 review and approve all contract submissions in our corporate offices located in the Cayman Islands. 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 our gross premiums written by brokers for the years ended December 31, 2009, 2008 and 2007:

	2009		2008		2007	
			($ in thousands)			
Name of Broker						
AON Benfield (1)	$ 79,419	30.7%	$ 35,736	22.0%	$ 37,414	29.5%
Cornerstone Re	62,346	24.1	25,552	15.7	—	—
Frontline Insurance Managers	11	—	(4,071) (2)	(2.5)	41,291	32.5
Lainston International Mgmt	3,154	1.2	5,955	3.7	12,112	9.5
Marsh & McLennan Companies	9,397	3.6	9,910	6.1	1,958	1.5
Reinsurance Cooperative Associates, LLC	60,043	23.2	50,000	30.8	—	—

Reinsurance Risk Services	13,885	5.4	2,405	1.5	—	—
RIB Intermediaries	6,771	2.6	9,329	5.7	—	—
Risk & Insurance Consulting, Inc	(121) (2)	—	12,450	7.7	14,981	11.8
Towers Watson (3)	17,700	6.8	7,500	4.6	10,537	8.3
Other	6,213	2.4	7,629	4.7	8,838	6.9
Total	$ 258,818	100.0%	$ 162,395	100.0%	$ 127,131	100.0%

(1) AON Ltd acquired Gallagher Re in February 2008 and merged with Benfield Group in December 2008. The historical gross premiums written include those originally sourced by Benfield and Gallagher Re.

(2) Represents our share of gross return premiums based on updated information received from client.

(3) Towers Perrin acquired Denis Clayton in 2002 and merged with Watson Wyatt in 2009. The historical gross premiums written include those originally sourced by Watson Wyatt and Denis Clayton.

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 approved in our executive offices in the Cayman Islands. Due to our dependence on brokers, we may assume a degree of credit risk. See ‘‘Risk Factors — The involvement of reinsurance brokers subjects us to their credit risk.’’

In addition, we continue to expect the large number of captive insurance companies located in the Cayman Islands to be a source of business for us. We aim to develop relationships with potential clients when we believe they have a need for reinsurance, based on our industry knowledge and market trends.

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.

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Underwriting and Risk Management

We have established a senior team of generalist underwriters and actuaries to operate our reinsurance business. We believe that their 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 equity 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.

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, including our Chief Underwriting Officer, must agree that the transaction meets or exceeds our return on equity requirements before we submit a firm proposal. Our Chief Underwriting Officer maintains the exclusive ultimate authority to bind contracts.

Actuarially Based Pricing

We have developed 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.

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 risks.

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 will respond to a loss, 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 the amount of reinsurance coverage to the full amount reduced as a result of a reinsurance loss payment, which we refer to as a reinstatement premium.

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 client’s interests promotes accurate reporting of information, timely settling and management of claims and limits the potential for disputes.

Integrated Underwriting Operations

We have implemented a ‘‘cradle to grave’’ service philosophy where the same individual underwrites and administers 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.

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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 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 has set parameters for zonal and aggregate property catastrophic caps and limits for maximum loss potential under any individual contract. The Underwriting Committee may approve 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. We believe that the maximum underwriting authorities, as set by our Underwriting Committee, will likely change over 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 counter-parties.

The amount of retrocessional coverage that we purchase will vary 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 counter-parties.

We intend to only purchase uncollateralized retrocessional coverage from a reinsurer with a minimum financial strength rating of ‘‘A– (Excellent)’’ from either 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, 2009, the aggregate amount due from reinsurers from retrocessional coverages represents 5.3% of our gross outstanding loss reserves. As of December 31, 2009, all the reinsurers of our retrocessional coverage had either a financial strength rating from A.M. Best of ‘‘A– (Excellent)’’ or better, or we held cash collateral or letters of credit 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 have implemented a ‘‘cradle to grave’’ service philosophy where the same individual underwrites and administers 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 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, which may include our Chief Financial Officer.

Where necessary, we will conduct or contract for on-site audits, particularly for large accounts and for those whose performance differs from our expectations. Through these audits, we will evaluate 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.

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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 have engaged 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 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 not licensed or admitted as an insurer in any jurisdiction other than the Cayman Islands. 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, 2009, we have letter of credit facilities with an aggregate maximum available amount of $475.0 million. As of December 31, 2009, we have issued letters of credit totaling $278.4 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, we believe that our approach to underwriting will allow us to be successful in underwriting transactions against more established competitors.

Ratings

We currently have an ‘‘A– (Excellent)’’ financial strength rating with a stable outlook from A.M. Best, which is the fourth 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.”

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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 revised) 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.

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 to 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 and 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. Failures to comply with CIMA regulation may be punishable by a fine of up to 100,000 Cayman Islands dollars (which is equal to 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 a Cayman Islands exempted company, we may not carry on business or trade locally in the Cayman Islands except in furtherance of our business outside the Cayman Islands and we are prohibited from soliciting the public of the Cayman Islands to subscribe for any of our 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.

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. Prior to January 1, 2008, we operated pursuant to an investment agreement with DME Advisors. On January 1, 2008 we entered into an agreement, or the "advisory agreement", wherein the Company and DME Advisors agreed to create a joint venture for the purposes of managing certain jointly held assets. The term of the advisory agreement is from January 1, 2008 through December 31, 2010 with automatic three-year renewals unless either Greenlight Re or DME Advisors terminates the agreement by giving 90 days notice prior to the end of the three year term. Concurrent with the execution of the advisory agreement, we terminated the investment agreement with DME Advisors.

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 1.5% annual management fee, regardless of the performance of our investment account, payable monthly based on the net asset value of our investment account, excluding assets, if any, held in trusts used to collateralize our reinsurance obligations, which we refer to as Regulation 114 Trusts; and

- performance compensation based on the appreciation in the value of our 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% on profits in any year subsequent to the year in which our investment 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 earn performance compensation in a year in which our 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. For the year ended December 31, 2008, our portfolio reported a net investment loss of $126.1 million and as a result no performance compensation was paid to DME Advisors. In addition, the performance compensation for subsequent years will be reduced to 10% of net profits until all the investment losses have been recouped and an additional amount equal to 150% of the investment loss is earned. As of December 31, 2009, the loss carry forward balance was $94.3 million.

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 Masters, L.P., Greenlight Masters Qualified, L.P., Greenlight Masters Offshore, Ltd., Greenlight Masters Offshore I, Ltd., 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.

We may terminate the advisory agreement prior to the expiration of its term 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 our 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.

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, while less predictable than traditional fixed-income portfolios, our investment approach 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 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, arbitrages, bank loan participations, derivatives (including options, warrants, swaps and futures), commodities, currencies, leases, break-ups, consolidations, reorganizations and limited partnerships.

Investment Guidelines

The investment guidelines adopted by our Board of Directors, which may be amended or modified from time to time take into account restrictions imposed on us by regulators, our liability mix, requirements to maintain an appropriate claims paying rating by ratings agencies and requirements of lenders. As of the date hereof, the investment guidelines currently state:

- Quality Investments: At least 80% of the assets in the investment portfolio are to be held in debt or equity securities (including swaps) of publicly-traded companies (or their subsidiaries) and governments of the Organization of Economic Co-operation and Development ("the OECD"), high income countries, cash, cash equivalents, and gold. Assets which are fair valued using unobservable inputs (Level 3 assets) are to be excluded from the 80% calculation above. No more than 10% of the assets in the investment portfolio will be held in private equity securities.

- Concentration of Investments: Other than cash, cash equivalents and United States government obligations, no single investment in the investment portfolio may constitute more than 20% of the portfolio.

- Liquidity: Assets will be invested in such fashion that we have a reasonable expectation that we can meet any of our liabilities as they become due. We periodically review with the investment advisor the liquidity of the portfolio.

- Monitoring: We require our investment advisor to re-evaluate each position in the investment portfolio and to monitor changes in intrinsic value and trading value and provide monthly reports on the investment portfolio to us or as we may reasonably determine.

- Leverage: The investment portfolio may not employ greater than 5% indebtedness for borrowed money, including net margin balances, for extended time periods. The investment advisor may use, in the normal course of business, an aggregate of 20% net margin leverage for periods of less than 30 days.

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Investment Results

Composition

Our investment portfolio managed by DME Advisors contains investments in equity securities, debt instruments, commodities, unrestricted cash and funds held with brokers, derivatives, and securities sold, not yet purchased. The following table represents the fair value of the total long positions as reported in the consolidated financial statements as of December 31, 2009 and 2008:

	2009		2008	
	($ in thousands)			
Debt instruments	$95,838	10.7%	$ 70,214	11.8%
Equities – listed	593,201	66.6	409,329	69.0
Private and unlisted equity securities	25,228	2.8	11,897	2.0
Call options	5,285	0.6	2,526	0.5
Put options	8,809	1.0	—	—
Commodities	102,239	11.5	—	—
	830,600	93.2	493,966	83.3
Cash and funds held with brokers	46,422	5.2	94,814	16.0
Financial contracts, net	13,917	1.6	4,279	0.7
Total long investments	$ 890,939	100%	$ 593,059	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, 2009 and 2008:

	2009		2008	
	($ in thousands)			
Equities – listed	$ 570,875	100.0%	$ 234,301	100.0%
Total short investments	$ 570,875	100.0%	$ 234,301	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, or interest rate options. 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. 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, 2009 and 2008:

	2009		2008	
	Long %	Short %	Long %	Short %

Debt instruments	10.8%	—%	11.8%	—
Equities & related derivatives	71.8	(64.8)	65.8	(39.3)
Private and unlisted equity securities	2.6	—	1.9	—
Other investments	0.0	(0.1)	—	(0.2)
Total	85.2%	(64.9)%	79.5%	(39.5)%

As of December 31, 2009, our exposure to gold on a delta adjusted basis was 17.3% (2008: 10.4%).

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, 2009:

Sector	Long %	Short %	Net %
Basic Materials	5.0%	(2.5)%	2.5%
Consumer Cyclical	1.5	(10.1)	(8.6)
Consumer Non-Cyclical	4.2	(5.3)	(1.1)
Energy	4.3	(2.1)	2.2
Financial	27.0	(27.7)	(0.7)
Healthcare	18.9	(2.7)	16.2
Industrial	12.6	(12.2)	0.4
Technology	11.7	(2.3)	9.4
Total	85.2%	(64.9)%	20.3%

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, 2009:

Capitalization	Long %	Short %	Net %
Large Cap Equity (≥$5 billion)	40.3%	(32.9)%	7.4%
Mid Cap Equity (≥$1 billion)	25.2	(26.6)	(1.4)
Small Cap Equity (<$1 billion)	7.9	(5.4)	2.5
Debt Instruments	10.7	—	10.7
Other Investments	1.1	—	1.1
Total	85.2%	(64.9)%	20.3%

Investment Returns

A summary of our consolidated net investment income (loss) for the years ended December 31, 2009, 2008 and 2007 is as follows:

	2009	2008	2007
		($ in thousands)	
Realized gains (losses) and change in unrealized gains and losses, net	$ 232,410	$ (118,667)	$ 28,051
Interest, dividend and other income	17,038	20,879	21,375
Interest, dividend and other expenses	(16,886)	(18,437)	(7,151)
Investment advisor compensation	(32,701)	(9,901)	(14,633)
Net investment income (loss)	$ 199,861	$ (126,126)	$ 27,642

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 are as follows: (1)

Quarter	2009	2008	2007	2006	2005	2004
1st	4.6%	(0.9)%	(4.2)%	7.5%	2.2%	—%
2nd	13.9	4.5	6.8	2.9	5.4	—
3rd	4.3	(15.9)	(0.8)	6.2	3.0	1.3

4th	6.4	(5.3)	4.2	5.9	2.9	3.9 %
Full Year	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.

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 on our website, 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

Our Board of Directors reviews 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, 2009, we had 15 full-time employees, all of whom were based in Grand Cayman. 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. We make available links to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other documents we file with or furnish to the 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

Factors that could materially affect our business, financial condition and results of operations are outlined below. Additional risks not presently known to us or that we currently deem immaterial 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 to opportunistically underwrite products and make investments to achieve favorable return 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 opportunistic nature 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.

We are a start-up operation and there is limited historical information available for investors to evaluate our performance.

We have limited operating history. We were formed in July 2004 but we did not begin underwriting reinsurance transactions until April 2006. As a result, there is limited historical information available to help investors evaluate our performance. In addition, in light of our limited operating history, and opportunistic underwriting philosophy, our historical financial statements are not necessarily meaningful for evaluating the potential of our future operations. Because our underwriting and investment strategies differ from those of other participants in the property and casualty reinsurance market, you may not be able to compare our business or prospects to other property and casualty reinsurers.

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;
- the general reputation and perceived financial strength of the reinsurer;
- relationships with reinsurance brokers;
- terms and conditions of products offered;

- 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 Limited, 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 will become more intense and the importance of acquiring and properly servicing each customer will 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 would 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 risk factor ‘‘— We are subject to the risk of possibly becoming an investment company under U.S. federal securities law.’’

If our losses 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 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.

As a relatively new reinsurer with an objective of being the lead underwriter on sizeable transactions and on a 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 of smaller transactions 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, to our detriment. If we determine our loss reserves to be inadequate, we will increase our loss reserves with a corresponding reduction in our net income in the period in which we identify the deficiency, and such a reduction would negatively affect our results of operations. If our losses 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.

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 and less favorable policy terms and conditions.

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 cyclicality could significantly and negatively affect our financial condition and results of operations.

Adverse consequences of the recent U.S. and global economic and financial industry downturns could harm our business, our liquidity and financial condition, and our stock price.

Current 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 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 ratings agencies as an important means of assessing the financial strength and quality of reinsurers. A.M. Best has assigned us a financial strength rating of ‘‘A– (Excellent),’’ which is the fourth 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's rating;
- if unfavorable financial or market trends impact us;
- if our 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.

Certain of our reinsurance contracts provide the client with the right to terminate the agreement if our ‘‘A– (Excellent)’’ A.M. Best rating is downgraded below certain rating thresholds. We expect that similar provisions will be included in certain future contracts as well.

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.

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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. In addition, we will need to add personnel to implement our business strategy. We could face challenges attracting personnel to the Cayman Islands. 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 delay or prevent us from fully implementing 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 or Chief Underwriting Officer. 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 (2009 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 delay us from fully implementing 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. 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.

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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 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, one or more of the 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.

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

Substantially all of our business is primarily placed through brokered transactions, which involve a limited number of reinsurance brokers. Since we began underwriting operations in April 2006, we have placed substantially all of our premiums written through brokers. To lose or fail to expand all or a substantial portion of the brokered business provided through one or more of these 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 your 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.

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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 war, terrorism and political instability, and these or other unanticipated losses could have a material adverse effect on our financial condition and results of operations.

We have exposure to large, unexpected losses resulting from man-made catastrophic events, such as acts of war, acts of terrorism and political instability. 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.

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

Climate change, to the extent it produces rising 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 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.

From time to time we may 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 in currencies other than the U.S. dollar. 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. The suspension or revocation of our license to do business as a reinsurance company in the Cayman Islands 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.

The Cayman Island Monetary Authority, or CIMA, which is the regulating authority of the Cayman Islands, 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.

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.

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

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, 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.

Insurance regulators in the United States or elsewhere may review our activities and claim that we are subject to that jurisdiction's licensing requirements.

We are admitted to do business only in the Cayman Islands. In general, the Cayman Islands insurance statutes, regulations and the policies of CIMA are less restrictive than United States state insurance statutes and regulations. We cannot assure you, however, that insurance regulators in the United States, the European Union 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 us with whom domestic companies may place business. We do not know of any such proposed legislation pending at this time.

If in the future we were to become subject to the laws or regulations of any state in the United States or to the laws of the United States, the European Union, or of any other country, we may consider various alternatives to our operations. If we choose to attempt to become licensed in another jurisdiction, for instance, we may not be able to do so and the modification of the conduct of our business or the non-compliance with insurance statutes and regulations could significantly and negatively affect our business.

Current legal and regulatory activities relating to certain insurance products could affect our business, results of operations and financial condition.

The sale and purchase of products that may be structured in such a way so as to not contain sufficient risk transfer to meet the requirement of U.S. GAAP to be accounted for as reinsurance, or loss mitigation insurance products, have become the focus of investigations by the SEC and numerous state Attorneys General. Although we seek to use structured contractual features in our product offerings, we conduct both internal and external accounting analysis with respect to risk transfer and believe that to date we have accurately reported our contracts that contain sufficient risk transfer under U.S. GAAP to be accounted for as reinsurance. However, because some of our contracts contain or will contain features designed to manage the overall risks we assume, such as a cap on potential losses or a refund of some portion of the premium if we incur smaller losses than anticipated at the time the contract is entered into, it is possible that we may become subject to the ongoing inquiries into loss mitigation products conducted by the SEC or certain Attorney Generals. In addition, we cannot predict at this time what effect the current investigations, litigation and regulatory activity will have on the reinsurance industry or our business or what, if any, changes may be made to laws and regulations regarding the industry and financial reporting. It is possible that these investigations or related regulatory developments will mandate changes in industry practices that will negatively impact our ability to use certain loss mitigation features in our products and, accordingly, our ability to operate our business pursuant to our existing strategy. Moreover, any reclassification of our reinsurance contracts as deposit liabilities rather than reinsurance contacts could call into question our exception under the Investment Company Act.

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, 2010, 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, 2010 subject to limited termination provisions, even if the performance of our investment portfolio is below our expectations.

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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 and 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 our assets under management to any one investment. Accordingly, from time to time we may hold a few, relatively large security positions in relation to our capital. As of December 31, 2009, we were invested in approximately 100 equity and debt securities and the largest five long and short positions comprised an aggregate of 38% and 20% 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 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 negatively affect the net asset value of our investment portfolio and thus our results of operations.

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 shorts 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

- performance compensation based on the appreciation in the value of our 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.

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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.

From March 31, 2006 until March 7, 2007, David Einhorn, the Chairman of our Board of Directors, was a director of New Century Financial Corp., or New Century, a subprime mortgage lender that filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code on April 2, 2007. Each of New Century's directors, including Mr. Einhorn, has been named as a defendant in a consolidated shareholder lawsuit. If Mr. Einhorn were held liable with respect to any claims relating to or arising out of New Century's bankruptcy filing or the shareholder lawsuit, and if such claims were not fully covered by New Century's director and officer insurance coverage or indemnification by New Century, then under the advisory agreement we may have to indemnify him for certain losses arising from such claims. We do not believe that our indemnification obligations, if any, relating to Mr. Einhorn's former membership on the board of directors of New Century would have a material adverse effect on our business.

As of December 31, 2009, 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, 2009, 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.

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 advisory agreement term is January 1, 2008 through December 31, 2010 and will automatically renew for successive three-year terms unless we or DME Advisors notify the other party at least 90 days prior to the end of the current term of its desire to terminate. We may terminate the advisory agreement prior to the expiration of its term 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 our 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.

If we become 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 discernable 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.

Non-traditional investment advisors that pursue investment strategies like ours, which involve the shorting of securities and the use of derivatives and leverage to enhance returns and which we refer to as alternative investment strategies, have recently come under increased scrutiny by regulatory officials and have been the subject of proposals for new regulation and oversight.

On October 27, 2009, the House Financial Services Committee approved an amended version of the Private Fund Investment Advisers Registration Act of 2009 for progression to the floor of the House of Representatives (the "Registration Act"). The Registration Act would, if enacted, require many investment advisors to register with the Securities and Exchange Commission (the "SEC") under the Investment Advisers Act of 1940. The Registration Act or other potential legislation relating to the regulation of investment advisors, if enacted, could adversely impact DME Advisors' ability to manage our investment portfolio or its ability to manage our portfolio pursuant to our existing investment strategy, which could cause us to alter our existing investment strategy and could significantly and negatively affect our business and results of operations. In addition, adverse publicity regarding alternative investment strategies generally, or DME Advisors or its affiliates specifically, could negatively affect our business reputation and attractiveness as a counterparty to brokers and clients.

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 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.

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. 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, 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.

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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 our issued and outstanding Class A ordinary shares.

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 entities in the Cayman Islands, 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." Recently, in May 2009, the Companies Law of the Cayman Islands was amended to create a process for merger or consolidation of two or more companies that are Cayman Islands entities or where the surviving entity is a Cayman Islands company. Prior to the adoption of this new law, the "schemes or 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 new merger law makes it faster and easier for companies to merge or consolidate than the "schemes of arrangement" statutory provision, the new merger law does 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 under the new law requires approval by the shareholders of each company representing 75% in value of the shareholders voting together as one class, or where the shares to be issued in the surviving company will have the same rights and economic value, by a special resolution, which normally requires, as a minimum, a two thirds majority of shareholders voting together as one class.

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.

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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 the 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 offer or 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, 2009, David Einhorn owned 17.2% 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.

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 and/or Greenlight Re 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 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 and/or Greenlight Re'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, or the IRS, will not successfully assert that Greenlight Capital Re and/or Greenlight Re are engaged in a trade or business within the United States. If the IRS were to successfully assert that Greenlight Capital Re and/or Greenlight Re 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 and/or Greenlight Re may become subject to current United States federal income taxation on its net income from sources within the United States; Greenlight Capital Re and/or Greenlight Re may be subject to United States federal income tax on a portion of its net investment income, regardless of its source; Greenlight Capital Re and/or Greenlight Re 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 and/or Greenlight Re 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 or Greenlight Re will not be a PFIC in any future taxable year.

In general, either of Greenlight Capital Re or Greenlight Re 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, either of Greenlight Capital Re or Greenlight Re 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.

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.

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 was added to the list of jurisdictions that have substantially implemented the internationally agreed tax standard in August 2009 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.

ITEM 2. PROPERTIES

On July 9, 2008, we entered into an operating lease agreement for new office space in Grand Cayman, Cayman Islands which expires on June 30, 2018. We occupied the new office space in August 2009. Previously, we leased and occupied office space in Grand Cayman under an operating lease that expires on August 31, 2010. We do not expect to renew this lease upon it's expiration in August 2010. We believe that for the foreseeable future the new office space will be sufficient for conducting our operations.

ITEM 3. LEGAL PROCEEDINGS

We are not party to any pending or threatened material litigation or arbitration and are not currently aware of any pending or threatened litigation. We anticipate that, similar to the rest of the reinsurance industry, we will be subject to litigation and arbitration in the ordinary course of business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of shareholders during the fourth quarter of the fiscal year ended December 31, 2009.

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.

	2009		2008	
	High	Low	High	Low
First Quarter	$17.26	$11.32	$21.46	$16.30
Second Quarter	$18.34	$14.09	$23.85	$16.75
Third Quarter	$19.45	$16.51	$23.50	$15.80
Fourth Quarter	$25.20	$18.24	$19.00	$8.67

Holders

As of February 1, 2010, the number of holders of record of our Class A ordinary shares was approximately 30, not including beneficial owners of shares registered in nominee or street name, who represent approximately 95% of the Class A ordinary shares.

Dividends

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

We currently do not intend to declare and pay dividends on our ordinary shares. However, if we decide to pay dividends, we cannot assure you 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 is subject to Cayman Islands regulatory constraints that affect its ability to pay dividends and include a minimum net worth requirement. Currently the minimum statutory net worth requirement for Greenlight Re is $120,000, but subject to the discretion of CIMA. As of December 31, 2009, Greenlight Re exceeded the minimum statutory capital requirement by $730.0 million. Any dividends we pay will be declared and paid in U.S. dollars.

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, 2009 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

On August 5, 2008 the Company's Board of Directors 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, 2011, 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, 2009. As of December 31, 2009, 1,771,100 shares remained authorized for repurchase under the plan.

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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, 2009, 2008, 2007, 2006 and 2005, as well as our selected consolidated balance sheet data as of December 31, 2009, 2008, 2007, 2006, and 2005, which are derived from our audited consolidated financial statements. The audited consolidated financial statements are prepared in accordance with U.S. GAAP and have been audited by BDO Seidman, LLP, an independent registered public accounting firm. Since we commenced underwriting business in April 2006 and did not write any reinsurance contracts in 2005 and 2004, comparisons to periods prior to April 2006 may not be meaningful.

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,				
	2009	2008	2007	2006	2005
	($ in thousands, except per share and share amounts)				
Summary Consolidated Statement of Income Data					
Gross premiums written	$ 258,818	$ 162,395	$ 127,131	$ 74,151	$ —
Net premiums earned	214,680	114,949	98,047	26,605	—
Net investment income (loss)	199,861	(126,126)	27,642	58,509	27,934
Loss and loss adjustment expenses incurred, net	119,045	55,485	39,507	9,671	—
Acquisition costs, net	69,232	41,649	38,939	10,415	—
General and administrative expenses	18,994	13,756	11,918	9,063	2,992
Net income (loss)	$ 209,545	$ (120,904)	$ 35,325	$ 56,999	$ 26,265
Earnings (Loss) Per Share Data (1)					
Basic	$ 5.78	$ (3.36)	$ 1.16	$ 2.67	$ 1.24
Diluted	5.71	(3.36)	1.14	2.66	1.24
Weighted average number of ordinary shares used in the determination of					
Basic	36,230,501	35,970,479	30,405,007	21,366,140	21,226,868
Diluted	36,723,552	35,970,479	30,866,016	21,457,443	21,265,801
Selected Ratios (based on U.S. GAAP Consolidated Statement of Income data)					
Loss ratio (2)	55.4%	48.3%	40.3%	36.4%	—
Acquisition cost ratio (3)	32.3%	36.2%	39.7%	39.1%	—
Internal expense ratio (4)	8.8%	12.0%	12.2%	34.1%	—
Combined ratio (5)	96.5%	96.5%	92.2%	109.6%	—

	As of December 31,				
	2009	2008	2007	2006	2005
	($ in thousands, except per share and share amounts)				
Selected Consolidated Balance Sheet Data:					
Total investments	$ 830,600	$ 493,966	$ 590,536	$ 243,522	$ 219,211
Cash and cash equivalents	31,717	94,144	64,192	82,704	7,218
Restricted cash and cash equivalents	590,871	248,330	371,607	154,720	99,719
Total assets	1,624,216	958,005	1,094,145	518,608	327,935
Loss and loss adjustment expense reserves	137,360	81,425	42,377	4,977	—
Unearned premium reserves	118,899	88,926	59,298	47,546	—
Total liabilities	894,978	466,565	488,563	206,441	96,113
Total shareholders' equity	729,238	491,440	605,582	312,167	231,822
Adjusted book value (6)	$ 698,641	$ 485,382	$ 605,582	$ 312,167	$ 248,034
Diluted adjusted book value (7)	$ 715,264	$ 500,108	$ 623,460	$ 329,631	$ 257,929
Ordinary shares outstanding:					
Basic	36,318,842	36,036,685	36,102,736	21,557,228	21,231,666
Diluted (8)	37,740,182	37,357,685	37,631,736	23,094,900	22,175,000
Per Share Data:					
Basic adjusted book value per share (9)	$ 19.24	$ 13.47	$ 16.77	$ 14.48	$ 11.68
Fully diluted adjusted book value per share (10)	18.95	13.39	16.57	14.27	11.63

(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. 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 earnings 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 shareholders’ equity minus non-controlling interest in joint venture with DME Advisors entered into effective January 1, 2008. In addition, adjusted book value for the year ended December 31, 2005 includes the aggregate principal outstanding on the Greenlight Capital Investors, LLC, or GCI, promissory note pursuant to the Securities Purchase Agreement, dated April 11, 2004, between us and GCI, which was fully repaid on December 6, 2006.

(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.

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, 2009, 2008 and 2007 and financial condition as of December 31, 2009 and 2008. 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-based 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 have a limited operating history and employ an opportunistic underwriting philosophy, period-to-period comparisons of our underwriting results may not be meaningful. In addition, our historical investment results may not 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 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.

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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 term, which is typically twelve months.

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

We may from time to time derive other income from gains on deposit accounted contracts, fees generated from advisory services provided by Verdant, and penalty fees relating to early terminations of contracts.

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 and other direct expenses that relate to our writing 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.

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 at the inception of each contract, 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. Generally, 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 are earned on a pro rata basis 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 such 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 premium being reported by a client that required a dispute resolution process.

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 equity and debt investments are derived based on last reported price on the balance sheet date as reported by a recognized exchange. The fair values of private 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 other investments in private and unlisted equity securities, limited partnerships, futures, 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. Our exchange traded option contracts are recorded at fair value based on quoted prices in active markets. For 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.

For securities classified as "trading securities," and "other investments," any realized and unrealized gains or losses are determined on the basis of specific identification method (by reference to cost and amortized cost, as appropriate) and included in net investment income in the consolidated statements of income. Prior to January 1, 2008, unrealized gains and losses, if any, on unlisted securities were included in accumulated other comprehensive income as a separate component of shareholders' equity. A decline in market value of a security below cost that was deemed other than temporary, was previously charged to earnings and resulted in the establishment of a new cost basis of the security. Effective January 1, 2008, as a result of adopting topic ASC 825-10-45-3 (Financial Instruments) we record unrealized gains and losses, if any, on unlisted securities in net investment income in the consolidated statements of income. There was no material impact to our results of operations or financial condition as a result of this change.

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Financial contracts which include total return swaps, credit default swaps, 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 are obtained from closing prices on a recognized exchange (for equity 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. 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 losses ("IBNR"); and
- estimated loss adjustment expenses.

Case reserves and IBNR 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, 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 losses incurred but not reported, or IBNR. These estimated ultimate reserves are based on reports received from ceding companies, historical experience and actuarial estimates. 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, 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 to these case reserves our estimates for IBNR. 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 which relate to first dollar exposure, may not contain aggregate limits.

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 received 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.

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 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 CEO, CFO, 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 excesses are identified. By way of illustration, since we started underwriting operations in 2006, the reserve re-estimation process has resulted in a decrease to prior year reserves and an increase in net income during each of the three years ended December 31, as follows:

Calendar Year	Effect on Net Income ($ in thousands)
2009	$ 7,597 increase
2008	$ 11,988 increase
2007	$ 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 contract term. 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 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 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 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 based our expected volatility on the historical volatility of similar entities. We typically considered factors such as an entity's industry, stage of life cycle, size and financial leverage when selecting similar entities. 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.

Outlook and Trends

We believe that the rebound in the financial markets during 2009 resulted in restored financial positions in the property and casualty insurance and reinsurance industry. As a result, we believe that underwriting capacity has become more available in the property and casualty market which has resulted in a delay in significant price increases for our specialty products. In addition, the lack of large catastrophes in 2009 has preserved industry capital. Further, we believe the slowdown in worldwide economic activity has decreased the overall demand for insurance. Notwithstanding, price reductions from prior years appear to have slowed, and in some areas reversed. We believe that pricing of the property and casualty industry will be relatively flat for the near term until insurers and reinsurers begin to realize that the current price levels are not economically rational. Given that prior years' reserve redundancies have been reduced substantially and current interest rates are low, which limits opportunities for traditional fixed maturity investment income, we believe the industry will eventually need to increase pricing. However, we do not expect to see the effects of this until late 2010 or 2011. Price increases could occur earlier if financial and credit markets experience additional adverse shocks and loss of capital of insurers and reinsurers.

Despite an overall less attractive marketplace, we believe that we are well positioned to compete for frequency business due to our increasing market recognition and the development of certain strategic relationships. In addition, there are a number of insurers and reinsurers that continue to suffer from capacity issues even after the rebound of the financial markets during 2009. We have seen a number of large, frequency-oriented opportunities that we believe fit well within our business strategy. These opportunities could increase for us if financial and credit markets report large losses while we maintain our financial strength. We have also begun to see some consolidation in the industry in 2009. We believe if merger and acquisition activity in the reinsurance industry increases and the number of industry participants decreases we could benefit from increased opportunities since insurers may prefer to diversify their reinsurance placements.

If the current challenges facing the insurance industry create significant dislocations, we believe we will be well positioned to capitalize on and compete for resulting opportunities. In some markets, such as subsectors of the credit and surety markets, we believe prices are rising substantially and reinsurance capacity is being withdrawn due to recent loss activity. In January 2010, we entered the credit and surety markets for the first time, as we believe recent dislocations will create above average opportunities for profit over the near term. Property catastrophe retrocession pricing remained flat in January 2010. At the same time, property catastrophe reinsurance pricing softened by an estimated 8% to 10% versus January 2009. We believe this soft pricing is due to the increased underwriting capacity of the industry, and in the absence of large catastrophe events, could further soften the property catastrophe retrocessional market later in 2010 and into 2011. If pricing softens significantly in property catastrophe retrocessional coverage, we expect to reduce our exposures accordingly. While it is unclear what other businesses could be significantly affected by the current economic downturn, we believe that opportunities are likely to arise in a number of areas, including the following:

- lines of business that experience significant losses;

- lines of business where current market participants are experiencing financial distress or uncertainty; and

- business that is premium and capital intensive due to regulatory and other requirements.

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

Our investment portfolio continues to be conservatively postured in 2010 as the market appears to be discounting a strong economic recovery that may or may not materialize. Our long portfolio is, for the most part, invested in stable, less cyclical businesses and three of our top five positions were initiated in 2009. We continue to hold short positions in businesses that we believe should be fundamentally challenged, especially in a difficult economic environment. We believe that there is a risk that the market will contract the multiples of higher reported earnings which we believe have been principally supported by significant government stimulus programs and one-time temporary inventory improvements. Given the challenging macroeconomic environment and higher government deficits, we continue to hold a significant position in gold and have other macro hedges in place in the form of options on higher interest rates and some corporate and sovereign CDS. We will continue to opportunistically evaluate mispriced equity and debt investments as the credit contraction continues to bear out.

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

Results of Operations

Years Ended December 31, 2009, 2008 and 2007

For the year ended December 31, 2009, we reported a net income of $209.5 million as compared to a net loss of $120.9 million for the year ended December 31, 2008. The net income principally related to a net investment income of $199.9 million. Our investment portfolio reported a gain of 32.1% for the year ended December 31, 2009 compared to a loss of 17.6% for the year ended December 31, 2008. The underwriting income for the year ended December 31, 2009 increased 48.3% to $26.4 million compared to $17.8 million for the year ended December 31, 2008. In addition, we generated other income of $4.5 million for the year ended December 31, 2009 (2008: $0) relating to penalty fees upon early termination of a reinsurance contract, net gains on deposit accounted contracts, and advisory fees earned by Verdant.

For the year ended December 31, 2008, we reported a net loss of $120.9 million compared to net income of $35.3 million for the year ended December 31, 2007. For the year ended December 31, 2008, we reported underwriting income of $17.8 million compared to underwriting income of $19.6 million for the year ended December 31, 2007. Our investment portfolio reported a loss of $126.1 million, or 17.6%, for the year ended December 31, 2008 compared to a gain of $27.6 million, or 5.9%, for the year ended December 31, 2007.

Our primary financial goal is to increase the long-term value in fully diluted adjusted book value per share. During 2009, as a result of adopting FASB's amendment to topic ASC 810-10-45 (Consolidation), the non-controlling interest in joint venture was reclassified from liabilities into shareholders’ equity for current and all prior periods. As a result of this reclassification, we believe that adjusting our book value to exclude the non-controlling interest in joint venture from total shareholders' equity is a more accurate and consistent presentation of our performance. During the year ended December 31, 2009, the fully diluted adjusted book value per share increased by $5.56 per share, or 41.5%, to $18.95 per share from $13.39 per share at December 31, 2008. For the year ended December 31, 2008, the fully diluted adjusted book value per share decreased by $3.18 per share, or 19.2% to $13.39 per share from $16.77 per share at December 31, 2007.

For the year ended December 31, 2009, the adjusted book value per share increased by $5.77 per share, or 42.8%, to $19.24 per share from $13.47 per share at December 31, 2008. For the year ended December 31, 2008, the adjusted book value decreased by $3.30 per share, or 19.7%, to $13.47 per share.

Adjusted book value per share is a non-GAAP measure as it excludes the non-controlling interest in joint venture from total shareholders' 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.

Premiums Written

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

	2009		2008		2007	
			($ in thousands)			
Frequency	$ 226,949	87.7%	$ 134,012	82.5%	$ 76,885	60.5%
Severity	31,869	12.3	28,383	17.5	50,246	39.5
Total	$ 258,818	100%	$ 162,395	100.0%	$ 127,131	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 will vary from year to year depending on the specific market opportunities that we pursue. For the year ended December 31, 2009, the premiums written relating to frequency business increased by $92.9 million, or 69.3%, from the year ended December 31, 2008. The increase reflects 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, 2009. The largest increase in premiums written for the year ended December 31, 2009 was a result of a new multi-year homeowners' personal lines contract entered into during 2009 which accounted for 41.4% of the increase. General liability, workers' compensation, health, motor liability and medical malpractice lines also contributed 28.9%, 10.8%, 8.1%, 6.0% and 4.8% respectively, to the increase in frequency premiums written for the year ended December 31, 2009.

For the year ended December 31, 2009, the premiums written relating to severity contracts increased by $3.5 million, or 12.3%, from the year ended December 31, 2008. The increase was the net effect of an increase in commercial property lines ($12.5 million) offset by decreases in medical malpractice ($3.4 million), general liability ($3.5 million), and professional liability ($2.1 million) lines of business.

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For the year ended December 31, 2008, the increase in premiums written for frequency business compared to 2007 was due to continuing development of our underwriting activities which resulted in a number of new frequency contracts written during the year ended December 31, 2008. Approximately 84.2% of the frequency premiums written during the year ended December 31, 2008 related to motor liability and health lines of business. By comparison, 53.7% of the frequency premiums written during the year ended December 31, 2007 related to personal property line of business. The shift in premiums written relating to our lines of business reflects our opportunistic underwriting strategy.

For the year ended December 31, 2008, the decrease in premiums written for severity business compared to 2007 was mainly attributed to a multi-year professional liability contract written during the year ended December 31, 2007, for which all premiums were recognized as written premiums at inception in accordance with our accounting policy for premium recognition.

We entered into retrocessional contracts with ceded premiums of $13.3 million, $16.4 million and $26.2 million for the years ended December 31, 2009, 2008 and 2007, respectively, to reduce the risk of loss assumed on certain frequency reinsurance contracts. The decrease in ceded premiums for the year ended December 31, 2009, is the net result of a health contract and its corresponding retroceded contract expiring in 2009, offset by a new general liability retroceded contract entered into during the year ended December 31, 2009. The decrease in ceded premiums for the year ended December 31, 2008 was principally due to frequency contracts restructured on renewal during 2008 which resulted in lower subject premiums and where we retained certain additional risks which we had previously ceded.

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

	2009		2008		2007	
			($ in thousands)			
Frequency	$ 213,673	87.0%	$ 117,616	80.6%	$ 50,735	50.2%
Severity	31,869	13.0	28,383	19.4	50,246	49.8
Total	$ 245,542	100.0%	$ 145,999	100.0%	$ 100,981	100.0%

Net Premiums Earned

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

	2009		2008		2007	
			($ in thousands)			
Frequency	$ 169,530	79.0%	$ 81,133	70.6%	$ 71,596	73.0%
Severity	45,150	21.0	33,816	29.4	26,451	27.0
Total	$ 214,680	100.0%	$ 114,949	100.0%	$ 98,047	100.0%

Premiums relating to quota share contracts are earned over the contract period in proportion to the period of protection. The increase in frequency earned premiums of 109.0% reflects the additional quota share contracts written throughout the 2009 year. The increase primarily related to motor liability lines which accounted for 46.3% of the increase, followed by health, general liability, workers' compensation, and personal lines accounting for 17.7%, 13.2%, 12.7% and 8.1% of the increase, respectively. For the year ended December 31, 2009, severity earned premiums increased 33.5% compared to the 2008 year. Commercial, medical malpractice, and general liability lines accounted for 42.5%, 35.8%, and 30.2% of the increase, respectively, with an offsetting decrease in professional liability lines.

For the year ended December 31, 2008, the increase in frequency earned premiums of 13.3% reflected additional quota share contracts written throughout the 2008 year. For the year ended December 31, 2008, earned premiums on severity contracts increased while the written premiums on severity contracts decreased. This was due to a multi-year professional liability contract written during the year ended December 31, 2007, which continued to earn premiums over the multi-year term of the contract. In addition, the severity earned premiums increased due to reinstatement premiums on severity contracts which were earned in full for the year ended December 31, 2008. There were no reinstatement premiums on severity contracts during the year ended December 31, 2007.

Losses Incurred

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

	2009		2008		2007	
			($ in thousands)			
Frequency	$ 95,934	80.6%	$ 36,013	64.9%	$ 34,252	86.7%
Severity	23,111	19.4	19,472	35.1	5,255	13.3
Total	$ 119,045	100.0%	$ 55,485	100.0%	$ 39,507	100.0%

Total losses incurred on frequency contracts continued to increase as a result of increases in premiums earned. 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. The loss ratio of our frequency business was 56.6%, 44.4% and 47.9% for the years ended December 31, 2009, 2008 and 2007, respectively. For the year ended December 31, 2009 the increase in frequency loss ratio was principally due to the increase in earned premiums on certain lines of business that typically have higher loss ratios. Specifically, the increase in premiums earned on our motor liability and health lines contributed to the majority of the increase in the frequency loss ratio.

For the year ended December 31, 2008, the decrease in frequency loss ratio was mainly due to the favorable loss development on a prior year personal lines contract written.

We expect losses incurred on our severity business to be volatile from period to period. The loss ratios for our severity business were 51.2%, 57.7%, and 19.9% for the years ended December 31, 2009, 2008 and 2007, respectively. The decrease in the severity loss ratio for the year ended December 31, 2009 was due to a medical malpractice contract that was terminated early with no losses. Offsetting this were losses reported during 2009 on an aggregate catastrophe excess of loss contract and an additional loss reported to us during 2009 on a 2007 casualty clash contract.

The increase in our severity loss ratio during the year ended December 31, 2008 was a result of losses primarily related to sub-prime related claims on casualty clash contracts.

Losses incurred can be further broken down into losses paid and changes in loss reserves. Losses incurred for the years ended December 31, 2009, 2008 and 2007 were comprised as follows:

	2009			2008			2007		
	Gross	Ceded	Net	Gross	Ceded	Net	Gross	Ceded	Net
					($ in thousands)				
Losses paid (recovered)	$ 62,070	$ (3,329)	$ 58,741	$ 29,791	$ (8,440)	$ 21,351	$ 15,505	$ (6,677)	$ 8,828
Change in reserves	55,911	4,393	60,304	39,075	(4,941)	34,134	37,400	(6,721)	30,679
Total losses incurred	$ 117,981	$ 1,064	$ 119,045	$ 68,866	$ (13,381)	$ 55,485	$ 52,905	(13,398)	$ 39,507

For the year ended December 31, 2009, the losses incurred included an increase of $126.6 million related to current year contracts offset by $7.6 million related to net favorable loss development on prior year contracts. For the year ended December 31, 2009, the decrease in ceded reserves of $4.4 million were primarily due to favorable loss development on an inward contract and the reduction in reserves recoverable on the corresponding retroceded contract.

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. We review loss reserves based upon the most recent available information. In general, initially on a contract, loss reserves are estimated based on historic or modeled information. These reserve estimates are adjusted, up or down, as the actual loss experience is realized. Our loss reserves on this contract were adjusted quarterly as new information was presented by our client and we reported these adjustments quarterly. The client reports incurred losses on this contract to us on a quarterly basis. The reserves we book are based on a combination of data received from the client as well as historic and industry data. 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.

- 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 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.

- Adverse loss development of $1.1 million on a 2007 health contract based on our quarterly reserve analysis.

For the year ended December 31, 2008, the increase in losses incurred of $55.5 million included an increase of $67.5 million related to current year incurred losses on 2008 contracts, offset by a decrease of $12.0 million related to net favorable loss development on prior year incurred losses. The loss development on prior year losses primarily related to the following:

- Favorable loss development of $12.4 million on a 2006 Florida personal lines contract. During 2008, each quarter the client reported improved (i.e. lower) loss ratio estimates. This decrease, supported by the favorable development of claims data, impacted our own reserve analysis and correspondingly caused us to reduce our reserves by approximately $12.4 million.

- Eliminating $1.2 million of reserves, held on two frequency contracts covering excess of loss medical malpractice, due to commutation without any reported losses.

- Adverse loss development of $1.4 million on a casualty clash severity contract due to notification of claims relating to sub-prime related events. This resulted in reserving for a full limit loss.

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:

	2009		2008		2007	
			($ in thousands)			
Frequency	$ 65,497	94.6%	$ 37,989	91.2%	$ 33,174	85.2%
Severity	3,735	5.4	3,660	8.8	5,765	14.8
Total	$ 69,232	100.0%	$ 41,649	100.0%	$ 38,939	100.0%

Increased acquisition costs for the year ended December 31, 2009 compared to the same period for 2008 are a direct result of the increases in premiums written and earned. For the years ended December 31, 2009, 2008 and 2007 the acquisition cost ratios for frequency business were 38.6%, 46.8% and 46.3%, respectively. We expect that acquisition costs will be higher for frequency business than for severity business. The acquisition cost ratios for severity business were 8.3%, 10.8% and 21.8% for the years ended December 31, 2009, 2008 and 2007, respectively.

For the year ended December 31, 2009, the decrease in the frequency acquisition cost ratio was principally due to a lower profit commission recorded on a personal lines contract during the year ended December 31, 2009 compared to the profit commission recorded on the same contract during the year ended December 31, 2008. Excluding the impact of this contract on the acquisition costs for both 2008 and 2009 years, our frequency acquisition cost ratio increased from 2008 to 2009 principally due to higher commissions allowed on a new homeowners' personal lines contract and higher actual reported commission on a 2008 motor liability contract.

For the year ended December 31, 2009, the decrease in severity acquisition cost ratio was primarily due to a reversal of profit commissions on a 2008 catastrophe excess of loss contract upon notification of losses from the insured during 2009.

For the year ended December 31, 2008, the slight increase in frequency acquisition cost ratio was due to the accrual of profit commissions on frequency contracts that had favorable underwriting results. For the year ended December 31, 2008, the decrease in severity acquisition cost ratio is the result of (a) lower profit commissions accrued and paid on severity contracts due to losses developing on non-natural peril contracts, and (b) the premiums earned on certain multi-year professional liability severity contracts which incepted in the later part of the second quarter of 2007 and had no acquisition costs associated with them.

General and Administrative Expenses

Our general and administrative expenses for the years ended December 31, 2009, 2008 and 2007 were $19.0 million, $13.8 million and $11.9 million, respectively. For the year ended December 31, 2009, approximately 84.6% of the increase in general and administrative expenses related to higher personnel costs including employee bonuses, stock compensation, salaries and benefits. While we added three new employees during the year ended December 31, 2009, the increase in personnel costs primarily related to higher accrued employee bonuses, which resulted from net favorable loss development and investment income accrued on the deferred bonus compensation relating to the 2007 and 2008 underwriting years, payable to the employees during 2010 and 2011, respectively. Higher rent and office expenses relating to new office space (including expensing the remaining lease payments relating to the original office space) accounted for approximately 13.5% of the increase in general and administrative expenses.

For the year ended December 31, 2008, the increase in general and administrative expenses of $1.9 million primarily related to higher personnel costs, including employee bonus accruals.

General and administrative expenses for the years ended December 31, 2009, 2008 and 2007 include $3.4 million, $3.0 million and $2.9 million, respectively, for the expensing of the fair value of stock options and restricted stock granted to employees and directors.

Net Investment Income (Loss)

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

	2009	2008	2007
		($ in thousands)	
Realized gains (losses) and change in unrealized gains and losses, net	$ 232,410	$ (118,667)	$ 28,051
Interest, dividend and other income	17,038	20,879	21,375
Interest, dividend and other expenses	(16,886)	(18,437)	(7,151)
Investment advisor compensation	(32,701)	(9,901)	(14,633)
Net investment income (loss)	$ 199,861	$ (126,126)	$ 27,642

Investment income, net of all fees and expenses, resulted in a gain of 32.1% on our investment portfolio for the year ended December 31, 2009. This compares to loss of 17.6% and a gain of 5.9% reported for the years ended December 31, 2008 and 2007, 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, 2009, included in investment advisor compensation was $10.8 million (2008: $9.9 million) relating to management fees paid to DME Advisors and $21.9 million (2008: $0) relating to performance compensation 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 compensation was paid to DME Advisors in 2008. In addition, based on the advisory agreement, the performance compensation for the subsequent years will be reduced to 10% until all the investment losses from 2008 have been recouped and an additional amount equal to 150% of the investment loss is earned. As of December 31, 2009, the loss carry forward balance was $94.3 million.

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) 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.

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.

Our wholly owned subsidiary, 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 expected to be taxed at a rate of 35%. For the year ended December 31, 2009, we recorded a deferred tax asset of $68,719 resulting solely from the temporary differences in recognition of expenses for tax purposes. An accrual of $19,529 has been recorded for current taxes payable as of December 31, 2009. 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. Verdant has not taken any tax positions that are subject to uncertainty or that are reasonably likely to have a material impact to Verdant or the Company.

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The following table sets forth our current and deferred income tax expense for the years ended December 31, 2009, 2008 and 2007.

	2009	2008	2007
	($ in thousands)		
Current tax expense	$(20)	—	—
Deferred tax benefit	69	—	—
Income tax benefit	$49	—	—

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, 2009, 2008 and 2007, we reported the following ratios:

	2009			2008			2007		
	Frequency	Severity	Total	Frequency	Severity	Total	Frequency	Severity	Total
Loss ratio	56.6%	51.2%	55.4%	44.4%	57.7%	48.3%	47.9%	19.9%	40.3%
Acquisition cost ratio	38.6%	8.3%	32.3%	46.8%	10.8%	36.2%	46.3%	21.8%	39.7%
Composite ratio	95.2%	59.5%	87.7%	91.2%	68.5%	84.5%	94.2%	41.7%	80.0%
Internal expense ratio			8.8%			12.0%			12.2%
Combined ratio			96.5%			96.5%			92.2%

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 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

Investments reported on our consolidated balance sheet as of December 31, 2009 were $830.6 million compared to $494.0 million as of December 31, 2008, an increase of 68.1%. The increase in investments was due to an investment gain of 32.1% for the year ended December 31, 2009, and cash flows from our underwriting operations used to purchase investments.

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, 2009, 87.6% 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), 10.5% comprised of securities valued based on observable inputs other than quoted prices (Level 2) and 1.9% was comprised of securities valued based on non-observable inputs (Level 3).

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, our investment advisor generally 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, 2009, $122.2 million of our investments were valued based on broker quotes, of which $113.5 million were based on observable market information and classified as Level 2, and $8.7 million were based on non-observable inputs and classified as Level 3.

During the year ended December 31, 2009, debt instruments with a fair value of $5.0 million were transferred from Level 2 to Level 3, as there was no longer an active market for these instruments and we were unable to obtain multiple quotes for these instruments. The fair values of these securities were estimated using the last available transaction price, adjusted for credit risk, expectation of future cash flows, and other non-observable inputs. In addition, during the year ended December 31, 2009, debt instruments with a fair value of $3.2 million were transferred out of Level 3, as multiple broker quotes were obtained for determining fair values. In addition, during the year ended December 31, 2009, unlisted equity securities with a fair value of $1.6 million were transferred from Level 2 to Level 3 as there was no longer an active market for these securities. The fair value of these securities was estimated based on a single quote from a market maker.

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

Restricted cash totaled $590.9 million as of December 31, 2009 compared to $248.3 million as of December 31, 2008, an increase of 137.9%. The increase in restricted cash was principally due to an increase in securities sold, not yet purchased since restricted cash balances are used to support the liability created from securities sold, not yet purchased.

Reinsurance Balances Receivable; Deferred Acquisition Costs, Net; Unearned Premium Reserves

As of December 31, 2009, reinsurance balances receivable, deferred acquisition costs, and unearned premium reserves increased by $13.0 million, or 21.8%, $16.8 million, or 95.1%, and $30.0 million, or 33.7%, respectively, compared to December 31, 2008. The increases in these balances are a direct result of the increase in the premiums written during the year ended December 31, 2009.

Notes Receivable

As of December 31, 2009, notes receivable increased by $13.7 million primarily as a result of promissory notes issued to third parties as part of our strategic investments in select property and casualty insurers. At December 31, 2009, all notes receivable were current and performing and recorded at cost plus accrued interest, which approximated their fair values. Included in the notes receivable at December 31, 2009 were accrued interest receivable of $0.7 million (2008: $19,201).

Loss and Loss Adjustment Expense Reserves

	December 31, 2009	December 31, 2008

	Case Reserves	IBNR	Total	Case Reserves	IBNR	Total
			($ in thousands)			
Frequency	$ 19,704	$ 69,166	$ 88,870	$ 6,666	$ 49,127	$ 55,793
Severity	20,472	28,018	48,490	—	25,632	25,632
Total	$ 40,176	$ 97,184	$ 137,360	$ 6,666	$ 74,759	$ 81,425

Loss reserves totaled $137.4 million as of December 31, 2009 compared to $81.4 million as of December 31, 2008. The increases are principally attributable to estimated losses incurred associated with the increase in premiums earned during the year ended December 31, 2009 resulting from our increased underwriting activities. Case reserves increased $33.5 million accounting for 59.9% of the increase, while reserves for losses incurred but not reported increased by approximately $22.4 million accounting for 40.1% of the increase as of December 31, 2009. The increase in frequency case reserves related primarily to motor liability contracts ($8.9 million) along with small increases in workers' compensation ($1.4 million), general liability ($1.1 million), and personal lines ($1.1 million). The increase in severity case reserves as of December 31, 2009 related primarily to general liability casualty clash contracts ($9.2 million), commercial lines ($9.0 million) and professional liability lines ($2.2 million).

Our severity business includes contracts that contain or may contain natural peril loss exposure. As of February 1, 2010, our maximum aggregate loss exposure to any series of natural peril events was $97.5 million. For purposes of the preceding sentence, 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 February 1, 2010:

Zone	Single Event Loss	Aggregate Loss
	($ in thousands)	
USA(1)	$ 58,450	$ 97,450
Europe	46,900	70,900
Japan	46,900	70,900
Rest of the world	26,900	50,900
Maximum aggregate	58,450	97,450

(1) Includes the Caribbean

Shareholders’ Equity

Our shareholders’ equity increased to $729.2 million as of December 31, 2009 from $491.4 million as of December 31, 2008, an increase of 48.4%. The increase is principally attributable to the increase in retained earnings from net income of $209.5 million for the year ended December 31, 2009. In addition, the non-controlling interest in joint venture increased by $24.5 million primarily as a result of DME Advisors retaining its performance compensation of $21.9 million for the year ended December 31, 2009, in the joint venture account.

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, and most of such needs are principally related to the payment of administrative expenses. All of our underwriting operations are conducted through our sole reinsurance subsidiary, Greenlight Re which underwrites risks associated with our property and casualty reinsurance programs. There are restrictions on Greenlight Re’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, 2009, the financial strength of Greenlight Re was rated “A- (Excellent)” with a stable outlook by A.M. Best. This rating reflects the A.M. Best’s opinion of our 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 surplus funds, net of funds required for cash liquidity purposes, are invested with our investment advisor to invest in accordance with our investment guidelines. As of December 31, 2009, approximately 94.1% 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, 2009, the majority of our investments are liquid, and are predominately securities that are traded on recognized securities exchanges and valued based on quoted prices in active markets for identical assets (Level 1). Given our value-oriented long and short investment strategy, if markets are distressed we would expect the liability of the short portfolio to decline. Any reduction in the liability would cause our need for restricted cash to decrease and thereby free 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 on all our securities in our consolidated statements of income for each reporting period. Thus, liquidating an investment in a distressed market has no negative financial implication to the Company as any investment loss on such a security has already been booked.

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For the year ended December 31, 2009, we generated $50.0 million in cash from operations mainly as a result of increased underwriting activities, used $112.7 million for purchase of investments, and generated $0.3 million from financing activities mainly relating to exercised stock options. For the year ended December 31, 2008, we generated $45.8 million in cash from operations mainly as a result of increases in our underwriting activities, used $13.6 million to increase our net investments, and used $2.3 million to repurchase ordinary shares. Effective January 1, 2008, as a result of adopting FASB's amendment to topic ASC 825-10-45-3 (Financial Instruments) cash flows relating to our investment portfolio are no longer classified as an operating activity, and instead have been classified as an investing activity to reflect the underlying nature and purpose of our investing strategies.

As of December 31, 2009, we believe 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 Greenlight Capital Re is not subject to any significant legal prohibitions on the payment of dividends, Greenlight Re is subject to Cayman Islands regulatory constraints that affect its ability to pay dividends to us and include a minimum net worth requirement. Currently the minimum net worth requirement for Greenlight Re is $120,000. As of December 31, 2009 Greenlight Re exceeded the minimum required by $730.0 million. By law, Greenlight Re is restricted from paying a dividend if such a dividend would cause its net worth to drop to less than the required minimum.

Letters of Credit

Greenlight Re is currently not licensed or admitted as a reinsurer in any jurisdiction other than the Cayman Islands. Because certain 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, 2009, Greenlight Re had a letter of credit facility of $400.0 million with Citibank, N.A. with a termination date of October 11, 2010. The termination date is automatically extended for an additional year unless written notice of cancellation is delivered to the other party at least 120 days prior to the termination date.

As of December 31, 2009, Greenlight Re had a $25.0 million letter of credit facility with Butterfield Bank (Cayman) Limited ("Butterfield Bank") with a termination date of June 6, 2010. The termination date is automatically extended for an additional year unless written notice of cancellation is delivered to the other party at least 30 days prior to the termination date.

As of December 31, 2009, Greenlight Re had a $50.0 million letter of credit facility with Bank of America, N.A. with a termination date of July 20, 2010. The termination date is automatically extended for an additional year unless notice of cancellation is delivered to the other party at least 90 days prior to the termination date.

As of December 31, 2009, an aggregate of $278.4 million (December 31, 2008: $167.3 million) in letters of credit were issued from the available $475.0 million facilities. Under the letter of credit facilities, we pledge assets that may consist of equity securities and cash equivalents. As of December 31, 2009, we had pledged an aggregate of $315.2 million (December 31, 2008: $220.2 million) of equity securities and cash equivalents as security for our letter of credit facilities.

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 plus unearned premium reserve that they book for statutory purposes on each contract. These balances need to be collateralized in order for our client to get statutory credit for their 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 Citibank, N.A., 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 us. For the year ended December 31, 2009, the Company was in compliance with all of the covenants under each of these facilities.

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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. 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, 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 for other general corporate purposes. We have not made any significant commitments for capital expenditures during the period as of December 31, 2009.

On August 5, 2008, the Board 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, 2011, does not require us to repurchase any specific number of shares and may be modified, suspended or terminated at any time without prior notice. As of December 31, 2009, we had repurchased 228,900 shares under the share repurchase plan.

We have been assigned a financial strength rating of ‘‘A– (Excellent)’’ by A.M. Best. This rating reflects the rating agency’s opinion of our financial strength, operating performance and ability to meet obligations. If an independent rating agency 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 business. Insurer financial strength ratings are based upon factors relevant to policyholders and are not directed toward the protection of investors. Our rating may be revised or revoked at the sole discretion of the rating agency.

Contractual Obligations and Commitments

The following table shows our aggregate contractual obligations by time period remaining to due date as of December 31, 2009:

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
			($ in thousands)		
Operating leases obligations (1)	$ 345	$ 552	$ 552	$ 967	$ 2,416
Specialist service agreement	689	550	—	—	1,239
Private equity investments (2)	16,836	—	—	—	16,836
Loss and loss adjustment expense reserves (3)	58,607	47,790	20,103	10,860	137,360
Total	$ 76,477	$ 48,892	$ 20,655	$ 11,827	$ 157,851

(1) Reflects our contractual obligations pursuant to the September 1, 2005 lease agreement and the July 9, 2008 lease agreement as described below.

(2) As of December 31, 2009 we have made total commitments of $44.5 million in private and unlisted investments, of which we have invested $27.7 million, and our remaining commitments to these investments total $16.8 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.

On September 1, 2005 we entered into a five-year lease agreement for office premises in the Cayman Islands. The lease repayment schedule is included under operating lease obligations in the above table and in the accompanying consolidated financial statements.

On July 9, 2008, we signed a ten year lease agreement for new 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 the rental payments commenced on December 1, 2008. We occupied the premises in August 2009. Under the terms of the lease agreement, our minimum annual rent payments will be $253,539 for the first three years, increasing by 3% thereafter each year to reach $311,821 by the tenth year. The minimum lease payments 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 the Company to any reinsurance contracts. Under the terms of the agreement, the Company has committed to quarterly payments to the specialist service provider. If the agreement is terminated, the Company is obligated to make minimum payments for another two years to ensure any contracts to which the Company is 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 wherein the Company and DME Advisors agreed to create a joint venture for the purposes of managing certain jointly held assets. The term of the agreement is January 1, 2008 through December 31, 2010, with automatic three-year renewals unless either the Company or DME Advisors terminates the agreement by giving 90 days notice prior to the end of the three-year term. Pursuant to this agreement, the Company pays a monthly management fee of 0.125% on the Company’s share of the assets managed by DME Advisors and performance compensation 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, 2008 the portfolio reported a net investment loss and as a result no performance compensation was paid to DME Advisors. The performance compensation for the year ended December 31, 2009 and subsequent years will be reduced to 10% of net investment income until the total loss carry forward balance is recovered. As of December 31, 2009, the loss carry forward balance was $94.3 million. For the year ended December 31, 2009, performance compensation of $21.9 million at the reduced rate of 10% of investment income was allocated to DME Advisors’ joint venture account

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 had an initial term of one year, and will continue for sequential one year periods until terminated by us or DME Advisors. Either party may terminate the agreement for any reason with 30 days prior written notice to the other party.

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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe we are principally exposed to six types of market risk:

- equity price risk;
- foreign currency risk;
- interest rate risk;
- credit risk;
- effects of inflation; and
- political risk

Equity Price Risk. As of December 31, 2009, our investment portfolio included significant 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 the current reported value. This risk is partly mitigated by the presence of both long and short equity securities. As of December 31, 2009, a 10% decline in the price of each of these listed equity securities and equity-based derivative instruments would result in a $7.3 million, or 0.9%, 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, 2009, we have no known losses payable in foreign currencies.

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 will consider the use of forward foreign currency exchange contracts in an effort to hedge against adverse foreign currency movements.

Through cash, 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, 2009, 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, 2009:

	10% increase in U.S. dollar		10% decrease in U.S. dollar	
Foreign Currency	Change in fair value ($ in thousands)	Change in fair value as % of investment portfolio	Change in fair value	Change in fair value as % of investment portfolio
British Pounds	$ (1,518)	(0.18)%	$ 1,518	0.18 %
Canadian Dollar	(2,396)	(0.28)	2,396	0.28
Indian Rupee	1,606	0.19	(1,606)	(0.19)
Japanese Yen	10,224	1.19	(6,294)	(0.73)
Swiss Franc	(2,204)	(0.26)	2,204	0.26
Other	(777)	(0.09)	777	0.09
Total	$ 4,934	0.57 %	$ (1,005)	(0.12)%

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 debt instruments, credit default swaps, and interest rate options. The primary market risk exposure for any debt security is interest rate risk. As interest rates rise, the market value of our long fixed-income portfolio falls, and the converse is also true as interest rates fall. Additionally, some of our derivative investments may also be credit 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 investment portfolio as of December 31, 2009:

	100 basis point increase in interest rates		100 basis point decrease in interest rates	
	Change in fair value	Change in fair value as % of investment portfolio	Change in fair value	Change in fair value as % of investment portfolio
	($ in thousands)			
Debt instruments	$ (2,424)	(0.28)%	$ 2,595	0.30 %
Credit default swaps	(261)	(0.03)	261	0.03
Interest rate options	20,346	2.36	(9,005)	(1.05)
Net exposure to interest rate risk	$ 17,661	2.05%	$ (6,149)	(0.72)%

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. In addition, the securities, commodities, and cash in our investment portfolio are held with several prime brokers and custodians and we 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 and majority of cash balances are held by prime brokers and custodians on our behalf, we have no significant concentrations of credit risk.

Effects of Inflation. 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.

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Political Risk. We are exposed to political risk to the extent that our investment advisor, on our behalf and subject to our investment guidelines, trades 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 permanent measures, which may have a material adverse impact on our investment strategy. In addition, governments in the U.S. and other jurisdictions could impose new tax rules and regulations which may have a material adverse impact on our operations.

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 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 fraud. 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 also is based in part upon certain assumptions about the likelihood of future events and 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, 2009 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.

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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.

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, 2009. The effectiveness of our internal control over financial reporting has been audited by BDO Seidman, LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

ITEM 9B. OTHER INFORMATION

None

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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.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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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	$200,000,000 Letter of Credit Facility, dated October 12, 2005, by Citibank, N.A. to Greenlight Reinsurance, Ltd., as amended (incorporated by reference to Exhibit 10.1 of the Company's Registration Statement No. 333-139993)
10.2	Letter of Credit Facility amendment letter dated November 2, 2007 and acknowledged and accepted on November 8, 2007 between Greenlight Reinsurance, Ltd. and Citibank, N.A. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on November 9, 2007)
10.3	Letter of Credit Agreement dated June 6, 2007 between Greenlight Reinsurance, Ltd. and Bank Austria Cayman Islands Ltd. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on June 8, 2008)
10.4	Deed of Novation dated December 15, 2008, between UniCredit Bank Cayman Islands Ltd., Butterfield Bank (Cayman) Limited, and Greenlight Reinsurance, Ltd. (incorporated by reference to Exhibit 10.1 of the Company's Current report on Form 8-K filed with the SEC on December 22, 2008)
10.5	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)
10.6	Promissory Note, dated August 11, 2004, for $24,500,000 by and between the Registrant, as payee, and Greenlight Capital Investors, LLC, as maker (incorporated by reference to Exhibit 10.3 of the Company's Registration Statement No. 333-139993)
10.7	Second Amended and Restated Investment Advisory Agreement, dated January 1, 2007, by and between Greenlight Reinsurance, Ltd. and DME Advisors, LP (incorporated by reference to Exhibit 10.4 of the Company's Registration Statement No. 333-139993)
10.8	Agreement by and among Greenlight Reinsurance, Ltd., Greenlight Capital Re, Ltd. (for limited purpose) and DME Advisors dated as of January 1, 2008 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on January 3, 2008)
10.9	Termination Agreement by and among Greenlight Reinsurance, Ltd., Greenlight Capital Re, Ltd. and DME Advisors, LP dated as of January 1, 2008 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the SEC on January 3, 2008)
10.10	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)

10.11 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)

10.12 Form of Stock Option Agreement (incorporated by reference to Exhibit 10.7 of the Company's Registration Statement No. 333-139993)

10.13 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)

10.14 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)

10.15 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)

10.16 Administration Agreement, dated August 11, 2004, between the Registrant and HSBC Financial Services (Cayman) Limited (incorporated by reference to Exhibit 10.9 of the Company's Registration Statement No. 333-139993)

10.17 Administration Agreement, dated August 11, 2004, between Greenlight Reinsurance, Ltd. and HSBC Financial Services (Cayman) Limited (incorporated by reference to Exhibit 10.10 of the Company's Registration Statement No. 333-139993)

10.18 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)

10.19 Amended and Restated Employment Agreement, dated as of December 30, 2008, by and among Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd. and Leonard Goldberg (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on January 2, 2009)

10.20 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 with the SEC on January 2, 2009)

10.21 Amended and Restated Employment Agreement, dated as of December 30, 2008, by and between Greenlight Reinsurance, Ltd. and Barton Hedges (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed with the SEC on January 2, 2009)

10.22 Lease, dated August 25, 2005, by and between Greenlight Reinsurance, Ltd. and Grand Pavilion Ltd. (incorporated by reference to Exhibit 10.15 of the Company’s Registration Statement No. 333-139993)

10.23 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)

10.24 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)

10.25 Multiple Line Quota Share Reinsurance Agreement, effective as of October 1, 2006, between First Protective Insurance Company and Greenlight Reinsurance, Ltd. (incorporated by reference to Exhibit 10.22 of the Company’s Registration Statement No. 333-139993)

10.26 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)

10.27 Amendment No. 1, dated February 18, 2009, to the Amended and Restated Employment Agreement, dated as of December 30, 2008, by and between Greenlight Reinsurance, Ltd. and Barton Hedges (incorporated by reference to Exhibit 10.27 of the Company's Form 10-K filed on February 23, 2009)

10.28 Amendment No. 1, dated February 20, 2009 to the Agreement dated January 1, 2008 by and among Greenlight Reinsurance, Ltd., Greenlight Capital Re, Ltd. (for limited purposes) and DME Advisors, LP (incorporated by reference to Exhibit 10.28 of the Company's Form 10-K filed on February 23, 2009)

10.29 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)

12.1 Ratio of earnings to fixed charges and preferred share dividends

21.1 Subsidiaries of the registrant

23.1 Consent of BDO Seidman, 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

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/ Leonard Goldberg
Leonard Goldberg
Chief Executive Officer
Date: February 24, 2010

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 24, 2010

/s/ LEONARD GOLDBERG
Leonard Goldberg
Director & Chief Executive Officer
(principal executive officer)
Date: February 24, 2010

/s/ FRANK D. LACKNER
Frank D. Lackner
Director
Date: February 24, 2010

/s/ ALAN BROOKS
Alan Brooks
Director
Date: February 24, 2010

/s/ IAN ISAACS
Ian Isaacs
Director
Date: February 24, 2010

/s/ JOSEPH P. PLATT
Joseph P. Platt
Director
Date: February 24, 2010

/s/ TIM COURTIS
Tim Courtis
Chief Financial Officer
(principal financial and accounting officer)
Date: February 24, 2010

/s/ BRYAN MURPHY
Bryan Murphy
Director

Date: February 24, 2010

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, 2009, 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, 2009, 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, 2009 and 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 24, 2010 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP
Grand Rapids, Michigan

February 24, 2010

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, 2009 and 2008 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. 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 audit 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, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, 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, 2009, 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 24, 2010 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP
Grand Rapids, Michigan
February 24, 2010

GREENLIGHT CAPITAL RE, LTD.
CONSOLIDATED BALANCE SHEETS

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

	2009	2008
Assets		
Investments		
Debt instruments, trading, at fair value	$ 95,838	$ 70,214
Equity securities, trading, at fair value	593,201	409,329
Other investments, at fair value	141,561	14,423
Total investments	830,600	493,966
Cash and cash equivalents	31,717	94,144
Restricted cash and cash equivalents	590,871	248,330
Financial contracts receivable, at fair value	30,117	21,419
Reinsurance balances receivable	72,584	59,573
Loss and loss adjustment expense recoverables	7,270	11,662
Deferred acquisition costs, net	34,401	17,629
Unearned premiums ceded	6,478	7,367
Notes receivable	15,424	1,769
Other assets	4,754	2,146
Total assets	$ 1,624,216	$ 958,005
Liabilities and shareholders' equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$ 570,875	$ 234,301
Financial contracts payable, at fair value	16,200	17,140
Loss and loss adjustment expense reserves	137,360	81,425
Unearned premium reserves	118,899	88,926
Reinsurance balances payable	32,013	34,963
Funds withheld	6,835	3,581
Other liabilities	12,796	6,229
Total liabilities	894,978	466,565
Shareholders' equity		
Preferred share capital (par value $0.10; authorized, 50,000,000; none issued)	—	—
Ordinary share capital (Class A: par value $0.10; authorized, 100,000,000; issued and outstanding, 30,063,893 (2008: 29,781,736): Class B: par value $0.10; authorized, 25,000,000; issued and outstanding, 6,254,949 (2008: 6,254,949))	3,632	3,604
Additional paid-in capital	481,449	477,571
Non-controlling interest in joint venture	30,597	6,058
Retained earnings	213,560	4,207
Total shareholders' equity	729,238	491,440
Total liabilities and shareholders' equity	$ 1,624,216	$ 958,005

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

GREENLIGHT CAPITAL RE, LTD.
CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2009, 2008 and 2007
(expressed in thousands of U.S. dollars, except per share and share amounts)

	2009	2008	2007
Revenues			
Gross premiums written	$ 258,818	$ 162,395	$ 127,131
Gross premiums ceded	(13,276)	(16,396)	(26,150)
Net premiums written	245,542	145,999	100,981
Change in net unearned premium reserves	(30,862)	(31,050)	(2,934)
Net premiums earned	214,680	114,949	98,047
Net investment income (loss)	199,861	(126,126)	27,642
Other income, net	4,538	—	—
Total revenues	419,079	(11,177)	125,689
Expenses			
Loss and loss adjustment expenses incurred, net	119,045	55,485	39,507
Acquisition costs, net	69,232	41,649	38,939
General and administrative expenses	18,994	13,756	11,918
Total expenses	207,271	110,890	90,364
Net income (loss) before non-controlling interest and income tax benefit	211,808	(122,067)	35,325
Non-controlling interest in (income) loss of joint venture	(2,312)	1,163	—
Net income (loss) before income tax benefit	209,496	(120,904)	35,325
Income tax benefit	49	—	—
Net income (loss)	$ 209,545	$ (120,904)	$ 35,325
Earnings (loss) per share			
Basic	$ 5.78	$ (3.36)	$ 1.16
Diluted	5.71	(3.36)	1.14
Weighted average number of ordinary shares used in the determination of			
Basic	36,230,501	35,970,479	30,405,007
Diluted	36,723,552	35,970,479	30,866,016

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

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

Years ended December 31, 2009, 2008 and 2007
(expressed in thousands of U.S. dollars, except per share and share amounts)

	2009	2008	2007
Ordinary share capital			
Balance – beginning of year	$ 3,604	$ 3,610	$ 2,156
Issue of Class A ordinary share capital, net of forfeitures	28	17	1,191
Issue of Class B ordinary share capital	—	—	263
Repurchase of Class A ordinary shares	—	(23)	—
Balance – end of year	$ 3,632	$ 3,604	$ 3,610
Additional paid-in capital			
Balance – beginning of year	$ 477,571	$ 476,861	$ 219,972
Issue of Class A ordinary share capital	716	9	207,144
Issue of Class B ordinary share capital	—	—	49,737
Repurchase of Class A ordinary shares	—	(2,311)	—
Share-based compensation expense, net of forfeitures	3,410	3,000	2,884
Options repurchased	(248)	—	(247)
Initial public offering expenses	—	—	(2,629)
Short-swing sale profit from shareholder	—	12	—
Balance – end of year	$ 481,449	$ 477,571	$ 476,861
Non-controlling interest			
Balance – beginning of year	$ 6,058	$—	$ —
Non-controlling interest contribution in joint venture	22,227	7,221	—
Non-controlling interest in income (loss) of joint venture	2,312	(1,163)	—
Balance – end of year	$ 30,597	$ 6,058	$ —
Retained earnings			
Balance – beginning of year	$ 4,207	$ 125,111	$ 90,039
Net income (loss)	209,545	(120,904)	35,325
Options repurchased	(192)	—	(253)
Balance – end of year	$ 213,560	$ 4,207	$ 125,111
Total shareholders' equity	$ 729,238	$ 491,440	$ 605,582

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

GREENLIGHT CAPITAL RE, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2009, 2008 and 2007
(expressed in thousands of U.S. dollars, except per share and share amounts)

	2009	2008	2007
Cash provided by (used in)			
Operating activities			
Net income (loss)	$ 209,545	$ (120,904)	$ 35,325
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Net change in unrealized gains and losses on investments and financial contracts	(192,319)	151,064	(23,719)
Net realized gains on investments and financial contracts	(38,512)	(8,923)	(13,215)
Foreign exchange gains on restricted cash and cash equivalents	(1,580)	(23,474)	—
Non-controlling interest in income (loss) of joint venture	2,312	(1,163)	—
Share-based compensation expense	3,410	3,000	2,884
Depreciation expense	117	40	40
Purchases of investments	—	—	(1,044,933)
Sales of investments	—	—	943,515
Net change in			
Restricted cash and cash equivalents	—	—	(216,887)
Financial contracts receivable, at fair value	—	—	(222)
Reinsurance balances receivable	(13,011)	(15,717)	(24,234)
Loss and loss adjustment expense recoverables	4,392	(4,941)	(6,721)
Deferred acquisition costs, net	(16,772)	(10,327)	8,980
Unearned premiums ceded	889	1,377	(8,744)
Other assets	(1,247)	(1,221)	753
Financial contracts payable, at fair value	—	—	9,106
Loss and loss adjustment expense reserves	55,935	39,048	37,400
Unearned premium reserves	29,973	29,628	11,752
Reinsurance balances payable	(2,950)	15,823	14,904
Funds withheld	3,254	(3,961)	7,542
Other liabilities	6,567	3,360	495
Performance compensation payable to related party	—	(6,885)	(7,739)
Net cash provided by (used in) operating activities	50,003	45,824	(273,718)
Investing activities			
Purchases of investments and financial contracts	(1,226,298)	(1,570,683)	—
Sales of investments and financial contracts	1,447,431	1,404,904	—
Change in restricted cash and cash equivalents, net	(340,961)	146,751	—
Change in notes receivable, net	(13,655)	(1,769)	—
Non-controlling interest contribution in joint venture	22,227	7,221	—
Fixed assets additions	(1,478)	—	—
Net cash used in investing activities	(112,734)	(13,576)	—
Financing activities			
Net proceeds from share issue	28	17	255,706
Options repurchased	(440)	—	(500)
Net proceeds from exercise of stock options	716	9	—

Repurchase of Class A ordinary shares	—	(2,334)	—
Short-swing sale profit from shareholder	—	12	—
Net cash provided by (used in) financing activities	304	(2,296)	255,206
Net (decrease) increase in cash and cash equivalents	$ (62,427)	29,952	(18,512)
Cash and cash equivalents at beginning of the year	94,144	64,192	82,704
Cash and cash equivalents at end of the year	$ 31,717	$ 94,144	$ 64,192
Supplementary information			
Interest paid in cash	$ 5,629	$ 8,992	$ 2,665
Interest received in cash	6,350	6,528	14,094
Income tax paid in cash	—	—	—

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

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

Years ended December 31, 2009, 2008 and 2007

1. DESCRIPTION OF BUSINESS

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 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 as part of a private placement. On December 9, 2008, Verdant Holding Company, Ltd (“Verdant”), a wholly owned subsidiary of GLRE, was incorporated in the state of Delaware principally for the purpose of making strategic investments in a select group of property and casualty insurers and general agents.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (‘‘U.S. GAAP’’). The significant accounting policies adopted by the Company are as follows:

Basis of Presentation

The consolidated financial statements include the accounts of GLRE and the consolidated financial statements of its wholly owned subsidiaries, Greenlight Re and Verdant. All significant intercompany transactions and balances have been eliminated on consolidation.

Management has evaluated subsequent events through February 24, 2010, the issuance date of these consolidated financial statements.

Use of Estimates

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

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.

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.

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 and amortized over the related contract term, and are limited to their estimated realizable value based on the related unearned premium, anticipated claims expenses and investment income. 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, 2009, $27.4 million (2008: $20.9 million) of profit commission reserves were included in reinsurance balances payable on the consolidated balance sheets. For the years ended December 31, 2009, 2008 and 2007, included in acquisition costs were profit commission expenses of $6.8 million, $13.3 million and $10.6 million, respectively.

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 in the consolidated statements of income under net investment income.

Loss and Loss Adjustment Expense Reserves and Recoverables

The Company establishes reserves for contracts based on estimates of the ultimate cost of all losses including losses incurred but not reported. These estimated ultimate reserves are based on reports received from ceding companies, industry data, historical experience as well as the Company's own actuarial estimates. These estimates are reviewed periodically 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 expense recoverables include the amounts due from retrocessionaires for paid and unpaid loss and loss adjustment expenses on retrocession agreements. Ceded losses incurred but not reported are estimated based on the Company’s actuarial estimates. These estimates are reviewed periodically and adjusted when deemed necessary. The Company may not be able to ultimately recover the loss and loss adjustment expense recoverable amounts due to the retrocessionaires’ inability to pay. The Company regularly evaluates the financial condition of its retrocessionaires and records provisions for uncollectible reinsurance recoverables when recovery becomes unlikely.

Notes Receivable

Notes receivable include promissory notes receivable from third party entities. These notes are recorded at cost along with accrued interest, if any, which approximates the fair value. The Company regularly reviews all notes receivable for impairment and records provisions for uncollectible notes and interest receivable for non-performing notes. For the year ended December 31, 2009, the notes earned interest at annual interest rates ranging from 6% to 10% and had maturity terms ranging from 5 years to 10 years. Included in the notes receivable balance was accrued interest of $0.7 million at December 31, 2009 (December 31, 2008: $19,201) and all notes were considered current and performing.

Deposit Assets and Liabilities

The Company accounts for reinsurance contracts in accordance with U.S. GAAP. In the event that a reinsurance contract does not transfer sufficient risk, or a contract provides retroactive reinsurance, deposit accounting is used. Any losses on such contracts are charged to earnings immediately and recorded in the 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. At December 31, 2009, included in the consolidated balance sheets under reinsurance balances receivable and reinsurance balances payable were $2.1 million and $0.8 million of deposit assets and deposit liabilities, respectively. For the year ended December 31, 2009, included in other income (expense) were $0.6 million relating to losses on deposit accounted contracts, and $1.5 million relating to gains on deposit accounted contracts. There were no deposit assets or deposit liabilities at December 31, 2008.

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 is five years for 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, 2009, 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	$ (140)	$ 60
Furniture and fixtures	261	(22)	239
Leasehold improvements	1,217	(55)	1,162
Total	$ 1,678	$ (217)	$ 1,461

At December 31, 2008, fixed assets consisted of computer software with a cost of $200,000 and accumulated depreciation of $100,000.

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 year ended December 31, 2009, there were no impairments in fixed assets.

Financial Instruments

Investments 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 and debt investments are derived based on quoted prices (unadjusted) in active markets for identical assets (Level 1 inputs). The fair values of private debt instruments are derived based on inputs that are observable, either directly or indirectly, such as market maker or broker quotes reflecting recent transactions (Level 2 inputs), and are generally derived based on the average of multiple market maker or broker quotes which are considered to be binding. Where quotes are not available, private 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, futures, commodities, exchange traded options and over-the-counter options ("OTC"), which are all carried at fair value. The Company maximizes the use of observable direct or indirect inputs (Level 2 inputs) when deriving the fair values for "other investments". For limited partnerships and private 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. Amounts invested in exchange traded and OTC call and put options are recorded as an asset or liability at inception. Subsequent to initial recognition, unexpired exchange traded option contracts are recorded at fair value based on quoted prices in active markets (Level 1 inputs). For OTC options or exchange traded options where a quoted price in an active market is not available, fair values are derived based upon observable inputs (Level 2 inputs) such as multiple market maker quotes.

For securities classified as “trading securities,” and “other investments,” any realized and unrealized gains or losses are determined on the basis of specific identification method (by reference to cost and amortized cost, as appropriate) and included in net investment income in the 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. Derivative financial instrument assets are generally included in investments in securities or financial contracts receivable. Derivative financial instrument liabilities are generally included in financial contracts payable. The Company's derivatives do not constitute hedges for financial reporting purposes.

Financial Contracts

The Company enters into financial contracts with counterparties as part of its investment strategy. Financial contracts which include total return swaps, credit default swaps, 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 on 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 either interest rate, dividend payments and receipts, or foreign exchange movements during a specified period. The Company measures its rights or obligations to the counterparty based on the fair value movements of the underlying security together with any other payments due. These contracts are carried at fair value, based on observable inputs (Level 2 inputs) with the resultant unrealized gains and losses reflected in net investment income in the 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 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).

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

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 9).

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 reasonably estimate the expected volatility. Therefore the Company based its expected volatility on the historical volatility of similar entities. The Company considered 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 to calculate the historical volatility. Additionally, the Company used the full life of the option, ten years, as the estimated term of the option, and has assumed that dividends will not be paid.

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.

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 9).

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.

Other Assets

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

Other Liabilities

Other liabilities consist primarily of dividends payable on securities sold, not yet purchased, and employee 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 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 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.

In December 2007, the Financial Accounting Standards Board (“FASB”) issued an amendment to topic ASC 810-10-45 (Consolidation) effective for fiscal years beginning on or after December 15, 2008. This amendment establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. As a result of this amendment, the Company's non-controlling interest in joint venture (previously referred to as minority interest in joint venture) was reclassified from liabilities to shareholders’ equity for all years presented. This reclassification resulted in an increase in shareholders’ equity and a decrease in total liabilities. However, this amendment did not have any impact on the Company's results of operations or retained earnings.

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. 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 (loss) per share calculations. The Company's unvested restricted stock is considered a participating security. In the event of a net loss, the participating securities are excluded from the calculation of both basic and diluted earnings (loss) per share. Therefore, for the year ended December 31, 2008, unvested restricted stock has been excluded from the weighted average shares outstanding.

	2009	2008	2007
Weighted average shares outstanding	36,230,501	35,970,479	30,405,007
Effect of dilutive service provider share-based awards	131,163	—	161,109
Effect of dilutive employee and director share-based awards	361,888	—	299,900
	36,723,552	35,970,479	30,866,016
Anti-dilutive stock options outstanding	—	1,608,340	50,000

Taxation

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

Verdant is incorporated in Delaware, and therefore, is subject to taxes in accordance with the U.S. federal rates and regulations prescribed by the Internal Revenue Service. Verdant's taxable income is generally expected to be taxed at a rate of 35%. Any deferred tax asset is evaluated for recovery and a valuation allowance is recorded when it is more likely than not that the deferred tax asset will not be realized in the future. Verdant has not taken any tax positions that are subject to uncertainty or that are reasonably likely to have a material impact to Verdant or the Company.

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 June 2009, the FASB established the FASB Accounting Standards Codification ("Codification") as the source of authoritative accounting principles recognized by the FASB and supersedes all other existing and related literature. The Codification does not change U.S. GAAP, but instead takes the hundreds of standards established by a variety of standard setters and reorganizes them into roughly 90 accounting topics using a consistent structure and a new method for citing particular content using unique numeric identifiers. The Codification is effective for financial statements for interim and annual reporting periods ending after September 15, 2009. The implementation of the Codification had no impact on the Company’s results of operations or financial position, but impacted all references to FASB literature previously cited in the Company’s notes to the consolidated financial statements.

In September 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-12, Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This Update amends Subtopic 820-10, Fair Value Measurements and Disclosures — Overall, to permit a reporting entity to measure the fair value of certain investments on the basis of the net asset value per share of the investment (or its equivalent). This Update also requires new disclosures, by major category of investments, about the attributes of investments within the scope of this Update. The guidance in this Update is effective for interim and annual periods ending after December 15, 2009. The Company has adopted this Update for its annual period ending December 31, 2009 and has provided the disclosures in Note 3 to the consolidated financial statements in accordance with ASU No. 2009-12.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires additional disclosures and clarifies some existing disclosure requirements about fair value measurement. ASU 2010-06 amends Codification Subtopic 820-10 to require a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. A reporting entity should present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs. In addition, ASU 2010-06 clarifies the requirements of the existing disclosures. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early application is permitted. The Company anticipates providing the required disclosures in accordance with ASU 2010-06 in the Company’s Form 10-Q for the period ending March 31, 2010. For those additional disclosures required for fiscal years beginning after December 15, 2010, the Company anticipates including those in its Form 10-Q for the period ending March 31, 2011.

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 debt, equities, futures, put and call options, foreign exchange, commodities, 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 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 debt instruments to the extent that the debtors may default on their debt instruments.

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 2009 were $38.5 million (2008: $8.9 million, 2007: $13.2 million). Gross realized gains were $215.7 million (2008: $271.3 million, 2007: $101.4 million) and gross realized losses were $177.2 million (2008: $262.4 million, 2007: $88.2 million). For the year ended December 31, 2009, included in net investment income in the consolidated statements of income were $190.0 million of net gains (2008: $145.6 million of net losses, 2007: $14.8 million of net gains) relating to trading securities still held at the balance sheet date.

As of December 31, 2009, cash and investments with a fair value of $315.2 million (2008: $220.2 million) have been pledged as security against letters of credit issued.

As of December 31, 2009, 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 $107.3 million, or 14.7% of shareholders' equity. As of December 31, 2008, there were no investments in excess of 10% of shareholders' equity.

Fair Value Hierarchy

Effective January 1, 2008, the Company’s “trading securities” are carried at fair value, and the net unrealized gains or losses are included in net investment income in the consolidated statements of income. For private equity securities, the unrealized gains and losses, if any, which would have been previously recorded in other comprehensive income, are included in net investment income in the consolidated statements of income in order to apply a consistent treatment for the Company’s entire investment portfolio. The change in treatment resulted in no cumulative-effect adjustment to the opening balance of retained earnings. The fair values of the private equity securities, existing at January 1, 2008, remained unchanged from the carrying values of those securities immediately prior to electing the fair value option.

The following table presents the Company’s investments, categorized by the level of the fair value hierarchy as of December 31, 2009:

	Fair Value Measurements as of December 31, 2009			
Description	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total as of December 31, 2009
Assets:		($ in thousands)		
Debt instruments	$ —	$ 94,301	$ 1,537	$ 95,838
Listed equity securities	593,201	—	—	593,201
Commodities	102,239	—	—	102,239
Private and unlisted equity securities	—	—	25,228	25,228
Call options	—	5,285	—	5,285
Put options	—	8,809	—	8,809
Financial contracts receivable	—	30,117	—	30,117
	$ 695,440	$ 138,512	$ 26,765	$ 860,717
Liabilities:				
Listed equity securities, sold not yet purchased	$ (570,875)	$ —	$ —	$ (570,875)
Financial contracts payable	—	(16,200)	—	(16,200)
	$ (570,875)	$ (16,200)	$ —	$ (587,075)

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

	Fair Value Measurements as of December 31, 2008			
Description	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total as of December 31, 2008

Assets:		($ in thousands)		
Debt instruments	$ —	$ 66,099	$ 4,115	$ 70,214
Listed equity securities	409,329	—	—	409,329
Private and unlisted equity securities	—	121	11,776	11,897
Call options	2,526	—	—	2,526
Financial contracts receivable	—	21,419	—	21,419
	$ 411,855	$ 87,639	$ 15,891	$ 515,385
Liabilities:				
Listed equity securities, sold not yet purchased	$ (234,301)	$ —	$ —	$ (234,301)
Financial contracts payable	—	(17,140)	—	(17,140)
	$ (234,301)	$ (17,140)	$ —	$ (251,441)

The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) as of December 31, 2009:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) December 31, 2009		
	Debt Instruments	Private and Unlisted Equity Securities	Total
	($ in thousands)		
Beginning balance	$ 4,115	$ 11,776	$ 15,891
Purchases, sales, issuances, and settlements, net	(4,263)	11,299	7,036
Total gains (losses) realized and unrealized in earnings, net	(102)	547	445
Transfers into Level 3, net	1,787	1,606	3,393
Ending balance	$ 1,537	$ 25,228	$ 26,765

The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) as of December 31, 2008:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) December 31, 2008		
	Debt Instruments	Private and Unlisted Equity Securities	Total
	($ in thousands)		
Beginning balance	$ 865	$ 8,115	$ 8,980
Purchases, sales, issuances, and settlements, net	5,250	9,466	14,716
Total gains (losses) realized and unrealized in earnings, net	(2,000)	(600)	(2,600)
Transfers out of Level 3	—	(5,205)	(5,205)
Ending balance	$ 4,115	$ 11,776	$ 15,891

For the year ended December 31, 2009, gross transfers into Level 3 of $6.6 million represent the fair value on the date of transfer of unlisted equity securities and debt instruments for which multiple broker quotes were not available. The fair values of these securities were estimated using the last available transaction price, adjusted for credit risk, expected cash flows, and other non-observable inputs. Gross transfers out of Level 3 of $3.2 million represent the fair values on the dates of transfer of debt instruments for which multiple broker quotes became available. For the year ended December 31, 2008, the transfers out of Level 3 represent the fair value of private equity securities of an entity that were transferred to Level 1 when the entity's shares were publicly listed during the second quarter of fiscal 2008, resulting in fair value being based on the quoted price in an active market.

For the year ended December 31, 2009, realized gains of $1.3 million, and change in unrealized losses of $0.8 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. For the year ended December 31, 2008, the change in unrealized losses of $2.6 million on securities still held at the reporting date, and valued using unobservable inputs, are included in net investment income (loss) in the consolidated statements of income. There were no realized gains or losses for the year ended December 31, 2008, relating to securities valued using unobservable inputs.

Investments

Debt instruments, trading

At December 31, 2009, and 2008 included in debt instruments, are the following investments:

2009	Cost/ amortized cost	Unrealized gains	Unrealized losses	Fair value
		($ in thousands)		
Corporate debt – U.S.	$ 60,121	$ 36,040	$ (5,555)	$ 90,606
Corporate debt – Non U.S.	2,961	2,274	(3)	5,232
Total debt instruments	$ 63,082	$ 38,314	$ (5,558)	$ 95,838

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

The maturity distribution for debt instruments held at December 31, 2009 is as follows:

	Cost/ amortized cost	Fair value
	($ in thousands)	
Within one year	$ 6,202	$ 8,300
From one to five years	27,450	49,844
From five to ten years	25,179	33,732
More than ten years	4,251	3,962
	$ 63,082	$ 95,838

Investment in Equity Securities, Trading

At December 31, 2009 and 2008, included in investment securities, trading are the following long positions:

2009	Cost	Unrealized gains	Unrealized losses	Fair value
		($ in thousands)		
Equities – listed	$ 510,229	$ 104,768	$ (40,040)	$ 574,957
Exchange traded funds	7,879	10,365	—	18,244
	$ 518,108	$ 115,133	$ (40,040)	$ 593,201

2008	Cost	Unrealized gains	Unrealized losses	Fair value

		($ in thousands)		
Equities – listed	$ 552,941	$ 14,822	$ (219,173)	$ 348,590
Exchange traded funds	53,364	8,092	(717)	60,739
	$ 606,305	$ 22,914	$ (219,890)	$ 409,329

Other Investments

"Other investments" include options, commodities and private and unlisted equity securities for which quoted prices in active markets are not readily available. Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the 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, 2009, the Company held OTC call options and put options with fair values of $0.2 million and $8.8 million, respectively. As of December 31, 2008, the Company did not hold any OTC call or put options.

At December 31, 2009, the following securities are included in other investments:

	Cost	Unrealized gains	Unrealized losses	Fair value
		($ in thousands)		
Commodities	$ 96,552	$ 5,687	$ —	$ 102,239
Private and unlisted equity securities	27,636	1,430	(3,838)	25,228
Put options	6,269	2,540	—	8,809
Call options	6,406	51	(1,172)	5,285
	$ 136,863	$ 9,708	$ (5,010)	$ 141,561

Included in private and unlisted equity securities are investments in private equity funds with a fair value of $3.2 million. The fair values of private equity funds were determined based on unadjusted net asset values reported by the funds' managers as of periods prior to the Company's year ended December 31, 2009. The private equity funds have varying lock-up periods and as of December 31, 2009 none of the funds were redeemable. The Company had unfunded commitments relating to a private equity fund of $7.4 million as of December 31, 2009 which are included in the schedule of commitments and contingencies in Note 14 of these consolidated financial statements.

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

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

During the years ended December 31, 2009, 2008 and 2007, other-than-temporary impairment losses on private and unlisted equities of $0, $0 and $323,000 respectively, were reported and included in net realized gains on securities under net investment income (loss) in the consolidated statements of income.

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

2009	Proceeds	Unrealized gains	Unrealized losses	Fair value
		($ in thousands)		
Equities – listed	$ (536,895)	$ 62,278	$ (79,525)	$ (554,142)
Warrants and rights on listed equities	—	—	(733)	(733)
Exchange traded funds	(15,678)	—	(322)	(16,000)
	$ (552,573)	$ 62,278	$ (80,580)	$ (570,875)

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

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

At December 31, 2009 and 2008, all equities sold, not yet purchased included in the Company's investment portfolio were in equities listed on recognized exchanges (Level 1).

Financial Contracts

As of December 31, 2009 and 2008, the Company had entered into total return swaps, credit default swaps, 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.

The fair value of financial contracts outstanding at December 31, 2009 is 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	1,723,954	$ 20,325
Credit default swaps, purchased – Sovereign debt	USD	315,722	5,322
Total return swaps - Equities	USD	45,516	4,470
Total financial contracts receivable, at fair value			$ 30,117
Financial contract payable			
Credit default swaps, purchased – Sovereign debt	USD	20,811	$ (128)
Credit default swaps, purchased – Corporate debt	USD	121,118	(7,281)
Credit default swaps, issued – Corporate debt	USD	13,909	(8,739)
Total return swaps - Equities	USD	2,286	(52)
Total financial contracts payable, at fair value			$ (16,200)

As of December 31, 2009, included in interest rate options are contracts on U.S. and Japanese interest rates. As of December 31, 2009, included in financial contracts payable, was a credit default swap (CDS) issued by the Company relating to the debt issued by another entity ("reference entity"). The CDS has a remaining term of 4 years and a notional amount of $13.9 million. Under this contract, the Company receives fees for guaranteeing the debt and in return will be obligated to pay the notional amount to the counterparty if the reference entity defaults under its debt obligations. As of December 31, 2009, the reference entity had a financial strength rating of (B3) and a surplus notes rating of (Caa3) from Moody’s Investors Service. Based on the ratings of the reference entity, there appears to be a high risk of default at December 31, 2009. The fair value of the CDS at December 31, 2009 was $8.7 million which was determined based on broker quotes obtained for identical or similar contracts traded in an active market (Level 2 inputs).

The fair value of financial contracts outstanding at December 31, 2008 is 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	98,991	$	2,564
Credit default swaps, purchased – Corporate debt	USD	52,509		5,956
Credit default swaps, purchased – Sovereign debt	USD	261,721		12,881
Total return swaps - Equities	USD	3,231		18
Total financial contracts receivable, at fair value			$	21,419
Financial contract payable				
Credit default swaps, issued – Corporate debt	USD	13,909	$	(7,024)
Total return swaps - Equities	USD	36,960		(10,116)
Total financial contracts payable, at fair value			$	(17,140)

During the years ended December 31, 2009, 2008 and 2007, 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,				
			2009		2008		2007
					($ in thousands)		
Interest rate options	Net investment income	$	7,793	$	(453)	$	—
Credit default swaps, purchased – Corporate debt	Net investment income		(14,922)		5,872		(2)
Credit default swaps, purchased – Sovereign debt	Net investment income		(8,273)		16,573		—
Total return swaps – Equities	Net investment income		6,563		(30,925)		(29,402)
Credit default swaps, issued – Corporate debt	Net investment income		(1,016)		(3,511)		—
Total return swaps – Commodities	Net investment income		—		(7,292)		(12,141)
Options, warrants, and rights	Net investment income		(6,666)		(10,115)		1,714
Total		$	(16,521)	$	(29,851)	$	(39,831)

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, 2009, the Company's volume of derivative activities (based on notional amounts) was as follows:

2009

Derivatives not designated as hedging instruments	Entered	Exited
	($ in thousands)	
Credit default swaps	$ 164,421	$ 21,000
Total return swaps	39,087	20,857
Interest rate options	1,624,963	—
Options – equity	494,224	64,527
Rights – equity	7,870	4,212
Total	$ 2,330,565	$ 110,596

4. CASH AND CASH EQUIVALENTS

	2009	2008
	($ in thousands)	
Cash at banks	$ 5,291	$ 17,179
Cash held with (due to) brokers	25,248	(89,048)
Money market funds held with brokers	1,178	166,013
	$ 31,717	$ 94,144

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 is held in non-U.S. financial institutions and are not insured by the FDIC or any other deposit insurance programs.

5. 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. The amount of cash encumbered varies depending on the market value of the securities sold, not yet purchased. 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.

	2009	2008
	($ in thousands)	
Cash held by prime brokers	$ 570,875	$ 230,481
Cash held by swap counter-parties	19,996	17,849
	$ 590,871	$ 248,330

Effective January 1, 2008, upon adoption of topic ASC 825-10-45-3 (Financial Instruments) any increase or decrease in restricted cash and cash equivalents relating to securities sold, not yet purchased and swaps is reported as an investing activity in the consolidated statements of cash flows. Prior to adoption of topic ASC 825-10-45-3, the net change in restricted cash and cash equivalents was reported as operating activity in the consolidated statements of cash flows.

6. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

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

	2009	2008	2007
		($ in thousands)	
Gross balance at January 1	$ 81,425	$ 42,377	$ 4,977
Less: Losses recoverable	(11,662)	(6,721)	—
Net balance at January 1	69,763	35,656	4,977
Incurred losses related to:			
Current year	126,642	67,473	40,584
Prior years	(7,597)	(11,988)	(1,077)
Total incurred	119,045	55,485	39,507
Paid losses related to:			
Current year	(34,080)	(14,069)	(7,126)
Prior years	(24,661)	(7,282)	(1,702)

Total paid	(58,741)	(21,351)	(8,828)
Foreign currency revaluation	23	(27)	—
Net balance at December 31	130,090	69,763	35,656
Add: Losses recoverable	7,270	11,662	6,721
Gross balance at December 31	$ 137,360	$ 81,425	$ 42,377

For the year ended December 31, 2009, the decrease in incurred losses of $7.6 million relating to prior years included 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 internal reserve analysis and correspondingly caused us to reduce our reserves.

- 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 internal quarterly reserve analysis.

- Favorable loss development of $0.7 million on a 2008 severity medical malpractice contract based on our 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 our 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.

- Adverse loss development of $1.1 million on a 2007 health contract based on our 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.

For the year ended December 31, 2008, the decrease in incurred losses of $12.0 million relating to prior years included the following:

- Favorable loss development of $12.4 million on a personal lines contract entered into during the year ended December 31, 2006. The favorable loss development was a result of reserves being released based on updated information received from the client indicating lower than expected claims development.

- Eliminating $1.2 million of reserves held on two frequency contracts covering excess of loss medical malpractice due to commutation without any reported losses.

- Adverse loss development of $1.4 million on a casualty clash severity contract due to notification of claims relating to sub-prime related events. This resulted in reserving for a full limit loss on this contract.

- The remaining net unfavorable 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.

For the year ended December 31, 2007, the decrease in incurred losses of $1.1 million relating to the prior year was primarily as a result of lowered expected ultimate losses due to favorable loss development and commutation of certain contracts with no reported losses.

At December 31, 2009 and 2008, loss and loss adjustment expense reserves were comprised of the following:

	2009	2008
	($ in thousands)	
Case reserves	$ 40,176	$ 6,666
IBNR	97,184	74,759
Total	$ 137,360	$ 81,425

7. RETROCESSION

The Company utilizes retrocession agreements in an effort to reduce the risk of loss on business assumed. The Company currently has coverages that provide for recovery of a portion of loss and loss expenses incurred on certain contracts. Loss and loss adjustment expense recoverables from the retrocessionaires are recorded as assets. For the year ended December 31, 2009, loss and loss adjustment expenses incurred of $119.0 million (2008: $55.5 million, 2007: $39.5 million) are net of loss and loss expenses recovered and recoverable of $1.1 million (2008: $13.4 million, 2007: $13.4 million). Retrocession contracts do not relieve the Company from its obligations to policyholders. Failure of retrocessionaires to honor their obligations could result in losses to the Company. The Company regularly evaluates the financial condition of its retrocessionaires. At December 31, 2009, the company had loss and loss adjustment expense recoverables of $0.3 million (2008: $0.2 million) with a retrocessionaire rated “A+ (Superior)” by A.M. Best. Additionally, the Company has loss recoverables of $7.0 million (2008: $11.5 million) with unrated retrocessionaires. At December 31, 2009, the Company retains funds and other collateral from the unrated retrocessionaires for amounts in excess of the loss recoverable asset, and the Company had no provision for uncollectible losses recoverable.

8. 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, 2009, 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’’) provides 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 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.

Shares authorized for issuance are comprised of 300,000 (2008: 350,000) Class A ordinary shares in relation to share purchase options granted to a service provider and 2,000,000 (2008: 2,000,000) Class A ordinary shares authorized for the Company’s stock incentive plan for eligible directors, employees and consultants. As of December 31, 2009, 133,897 (2008: 439,054) 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.

On January 10, 2007, 1,426,630 Class B ordinary shares were transferred from Greenlight Capital Investors, LLC (“GCI”) to its underlying owners and automatically converted into an equal number of Class A ordinary shares on a one-for-one basis, upon transfer. The remaining 3,623,370 Class B ordinary shares were transferred from GCI to David Einhorn, the Chairman of the Company's Board of Directors and a principal shareholder of the Company, and remained as Class B ordinary shares.

On May 30, 2007, the Company completed the sale of 11,787,500 Class A ordinary shares at $19.00 per share in an initial public offering. Included in the 11,787,500 shares sold were 1,537,500 shares purchased by the underwriters to cover over-allotments. Concurrently, 2,631,579 Class B ordinary shares were sold at $19.00 per share to David Einhorn as part of a private placement. The net proceeds to the Company of the initial public offering and private placement were approximately $255.7 million after the deduction of underwriting fees and other offering expenses.

On August 5, 2008, the Board 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, 2011, 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, 2009, 1,771,100 shares remained available under the share repurchase plan.

On July 10, 2009, the SEC declared effective the Company's Form S-3 registration statement for an aggregate principal amount of $200.0 million in securities.

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

	2009		2008		2007	
As of December 31,	Class A	Class B	Class A	Class B	Class A	Class B
Balance – beginning of year	29,781,736	6,254,949	29,847,787	6,254,949	16,507,228	5,050,000
Issue of ordinary shares, net of forfeitures	282,157	—	162,849	—	11,913,929	2,631,579
Transfer from Class B to Class A	—	—	—	—	1,426,630	(1,426,630)
Repurchase of ordinary shares	—	—	(228,900)	—	—	—
Balance – end of year	30,063,893	6,254,949	29,781,736	6,254,949	29,847,787	6,254,949

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.

9. SHARE-BASED COMPENSATION

The Company has a stock incentive plan for directors, employees and consultants. As of December 31, 2009, the Company had reserved for issuance 2,000,000 Class A ordinary shares (2008: 2,000,000) for eligible participants. At December 31, 2009, 133,897 Class A ordinary shares were available for future issuance under the Company's stock incentive plan.

Service Provider Share Purchase Options

An affiliate of GCI 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 repurchased a portion of the share purchase options as follows:

Date of repurchase	Number of share purchase options repurchased	Price paid per share purchase option
December 24, 2007	50,000	$ 10.00
August 6, 2009	25,000	8.50
November 5, 2009	25,000	9.10

Total repurchased share purchase options	100,000

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, 2009, 201,956 (2008: 141,465) restricted Class A ordinary shares were issued to employees pursuant to the Company’s stock incentive plan. These shares contain certain restrictions relating to, among other things, vesting, forfeiture in the event of termination of employment and transferability. Each of these restricted shares will cliff vest after three years from the date of issue, subject to the grantee’s continued service with the Company. The Company also issued to certain directors, 35,875 (2008: 20,724) restricted Class A ordinary shares as part of the directors’ remuneration. Each of these restricted shares issued to directors contains similar restrictions to those issued to employees and these shares will vest on the earlier of the first anniversary of the share issuance or the Company’s next annual general meeting, subject to the grantee’s continued service with the Company.

The Company recorded $2.7 million of share-based compensation expense relating to restricted shares for the year ended December 31, 2009 (2008: $1.6 million, 2007: $0.6 million). As of December 31, 2009, there were $3.5 million (2008: $2.8 million) of unrecognized compensation costs related to non-vested restricted shares which are expected to be recognized over a weighted average period of 1.34 years (2008: 1.67 years). For the year ended December 31, 2009, the total fair value of restricted shares vested was $0.4 million (2008: $0.2 million, 2007: $0).

The restricted share award activity during the year ended December 31, 2009 was as follows:

	Number of non-vested restricted shares		Weighted average grant date fair value
Balance at December 31, 2008	270,349	$	17.80
Granted	237,831		15.30
Vested	(20,724)		18.65
Forfeited	(12,674)		18.09
Balance at December 31, 2009	474,782	$	16.51

Employee and Director Stock Options

During the year ended December 31, 2009, the Company granted 80,000 (2008: 80,000) Class A ordinary share purchase options to the Chief Executive Officer, pursuant to his employment contract. These options vest 25% on the date of grant, and 25% each in 2010, 2011 and 2012 (2008 options vest 25% on the date of grant and 25% each in 2009, 2010, and 2011). The options expire after 10 years from the grant date. 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.

	2009	2008	2007
Risk free rate	3.55%	3.99%	4.79%
Estimated volatility	30%	30%	30%
Expected term	10 years	10 years	10 years
Dividend yield	0%	0%	0%

If actual results differ significantly from these estimates and assumptions, particularly in relation to management'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.

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, 2009 related to employee and director stock options was $0.7 million (2008: $1.4 million, 2007: $2.3 million). At December 31, 2009, the total compensation cost related to non-vested options not yet recognized was $0.5 million (2008: $0.7 million, 2007: $1.4 million) to be recognized over a weighted average period of 1.3 years (2008: 1.0 year, 2007: 1.09 years) assuming the employees complete their service period for vesting of the options.

During the year ended December 31, 2009, 57,000 (2008: 660, 2007: nil) stock options were exercised which had a weighted average exercise price of $12.66 (2008: $13.85, 2007: nil). 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, 2009 was $0.3 million (2008: $6,067, 2007: nil).

Employee and director stock option activity during years ended December 31, 2009 and 2008 was as follows:

		Weighted	Weighted
		average	average
	Number of	exercise	grant date
	options	price	fair value

Balance at December 31, 2007	1,179,000	$	12.19	$	6.20
Granted	80,000		29.39		8.69
Exercised	(660)		13.85		7.13
Forfeited	—		—		—
Expired	—		—		—
Balance at December 31, 2008	1,258,340	$	13.27	$	6.35
Granted	80,000		28.44		6.25
Exercised	(57,000)		12.66		6.57
Forfeited	—		—		—
Expired	—		—		—
Balance at December 31, 2009	1,281,340	$	14.24	$	6.33

At December 31, 2009, the weighted-average remaining contractual term for options outstanding was 6.46 years (2008: 7.25 years).

At December 31, 2009, 1,164,674 (2008: 964,233) stock options were exercisable. These options had a weighted-average exercise price of $12.91 (2008: $11.26) and a weighted-average remaining contractual term of 6.2 years (2008: 6.68 years).

The weighted average grant date fair value of options granted during the year ended December 31, 2009 was $6.25 (2008: $8.69, 2007: $10.18). The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2009 was $12.8 million and $12.8 million, respectively (2008: $1.4 million and $1.3 million). During the year ended December 31, 2009, 256,332 (2008: 411,233, 2007: 376,333) options vested which had a weighted average grant date fair value of $6.82 (2008: $6.31, 2007: $6.01).

10. NET INVESTMENT INCOME (LOSS)

	2009	2008	2007
		($ in thousands)	
Realized gains (losses) and change in unrealized gains and losses, net	$ 232,410	$ (118,667)	$ 28,051
Interest, dividend and other income	17,038	20,879	21,375
Interest, dividend and other expenses	(16,886)	(18,437)	(7,151)
Investment advisor compensation	(32,701)	(9,901)	(14,633)
Net investment income (loss)	$ 199,861	$ (126,126)	$ 27,642

11. GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008	2007
		($ in thousands)	
General expenses	$ 15,584	$ 10,756	$ 9,034
Share-based compensation expense	3,410	3,000	2,884
	$ 18,994	$ 13,756	$ 11,918

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 U.S. Internal Revenue Service (“IRS”) will not successfully assert that the Company is engaged in a trade or business within the U.S.

The Company’s wholly owned subsidiary, 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 expected to be taxed at a rate of 35%. For the year ended December 31, 2009 included in the consolidated balance sheet under other assets is a deferred tax asset of $68,719 (2008: $0) 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, 2009 for $19,529 (2008:$0). 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. Verdant has not taken any tax positions that are subject to uncertainty or that are reasonably likely to have a material impact to Verdant or the Company.

The following table sets forth our current and deferred income tax benefit (expense) for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
	($ in thousands)		
Current tax expense	$(20)	—	—
Deferred tax benefit	69	—	—
Income tax benefit	$49	—	—

13. RELATED PARTY TRANSACTIONS

Investment Advisory Agreement

The Company was party to an Investment Advisory Agreement (the "Investment Agreement") with DME Advisors until December 31, 2007. DME Advisors is a related party and an affiliate of David Einhorn, Chairman of the Company's Board of Directors (the "Board") and the beneficial owner of all of the issued and outstanding Class B ordinary shares. Effective January 1, 2008, the Company terminated the Investment Agreement and entered into an agreement (the "Advisory Agreement") wherein the Company and DME Advisors agreed to create a joint venture for the purposes of managing certain jointly held assets. Pursuant to this agreement, there were no changes to the monthly management fee or performance compensation contained in the Investment Agreement.

Pursuant to the Advisory Agreement, performance compensation equal to 20% of the net income of the Company's share of 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. In addition, the performance compensation for the year ended December 31, 2009 and subsequent years will be reduced to 10% of net investment income until all the investment losses have been recouped and an additional amount equal to 150% of the aggregate loss is earned. For the year ended December 31, 2009, included in net investment income (see Note 10) is performance compensation of $21.9 million (2008: $0 million, 2007: $6.9 million).

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, 2009 are management fees of $10.8 million (2008: $9.9 million, 2007: $7.7 million). The management fees have been fully paid as of December 31, 2009.

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, 2009, 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, 2009, the Company had a $400 million letter of credit facility with Citibank N.A. This facility terminates on October 11, 2010, although the termination date is automatically extended for an additional year unless written notice of cancellation is delivered to the other party at least 120 days prior to the termination date. In addition, at December 31, 2009, the Company had a $25 million letter of credit facility with Butterfield Bank (Cayman) Limited ("Butterfield Bank"). This facility terminates on June 6, 2010, although the termination date is automatically extended for an additional year unless written notice of cancellation is delivered to the other party at least 30 days prior to the termination date. On July 21, 2009, the Company entered into a $50.0 million letter of credit facility with Bank of America, N.A. This facility terminates on July 20, 2010, although the termination date is automatically extended for an additional year unless notice is delivered to the other party at least 90 days prior to the termination date.

At December 31, 2009, an aggregate amount of $278.4 million (2008: $167.3 million) in letters of credit were issued under the above referenced facilities. Under the facilities, the Company provides collateral that may consist of equity securities and cash equivalents. At December 31, 2009, total equity securities and cash equivalents with a fair value in the aggregate of $315.2 million (December 31, 2008: $220.2 million) were pledged as security against the letters of credit issued. Each of the facilities requires that the Company comply with certain covenants, including restrictions on the Company's ability to place a lien or charge on the pledged assets, and restricts issuance of any debt without the consent of the letter of credit provider. Additionally, if an event of default exists, as defined in the letter of credit facilities, Greenlight Re will be prohibited from paying dividends to its parent company. The Company was in compliance with all the covenants of each of these facilities as of December 31, 2009 and 2008.

Operating Lease

Effective September 1, 2005, the Company entered into a five-year non-cancelable lease agreement to rent office space in the Cayman Islands. On July 9, 2008, the Company entered into an additional lease agreement for new office space in the Cayman Islands. Under the terms of the latter lease agreement, the Company is committed to annual rent payments ranging from $253,539 to $311,821. The lease expires on June 30, 2018 and the Company has the option to renew the lease for a further five year term. Included in the schedule below are the minimum lease payment obligations relating to these leases.

The total rent expense related to leased office spaces for the year ended December 31, 2009 was $539,000 (2008: $95,000, 2007: $90,000).

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, as presented in the schedule below, to ensure contracts to which the Company is bound are adequately administered by the specialist service provider. Included in the schedule below are the minimum payment obligations relating to this agreement.

Private and Unlisted Equity

From time to time the Company makes investments in private and unlisted investments. As part of the Company's participation in such private and unlisted investments, the Company may make funding commitments. As of December 31, 2009, the Company had commitments to invest an additional $16.8 million in private and unlisted 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:

	2010	2011	2012	2013	2014	Thereafter	Total
				($ in thousands)			
Operating lease obligations	$ 345	$ 276	$ 276	$ 276	$ 276	$ 967	$ 2,416
Specialist service agreement	689	400	150	—	—	—	1,239
Private and unlisted investments (1)	16,836	—	—	—	—	—	16,836
	$ 17,870	$ 676	$ 426	$ 276	$ 276	$ 967	$ 20,491

(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, 2010.

Litigation

In the normal course of business, the Company may become involved in various claims litigation and legal proceedings. As of December 31, 2009, the Company was not a party to any litigation or arbitration proceedings.

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. During the year ended December 31, 2009, the three largest brokers accounted for $79.4 million, $62.3 million and $60.0 million of gross premiums written, representing 30.7%, 24.1% and 23.2%, respectively of total gross premiums written by the Company. During the year ended December 31, 2008, the three largest brokers accounted for $50.0 million, $35.7 million and $25.6 million of gross premiums written, representing 30.8%, 22.0% and 15.7%, respectively of total gross premiums written by the Company. During the year ended December 31, 2007, the three largest brokers accounted for $41.3 million, $37.4 million and $15.0 million of gross premiums written, representing 32.5%, 29.5% and 11.8%, respectively, of total gross premiums written.

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, 2009, 2008 and 2007:

Gross Premiums Written by Line of Business

	2009		2008		2007	
			($ in thousands)			
Property						
Commercial lines	$ 26,113	10.1%	$ 13,591	8.4%	$ 17,532	13.8%
Personal lines	34,434	13.3	(4,071)(1)	(2.5)	41,291	32.5
Casualty						
General liability	40,320	15.6	16,948	10.4	17,597	13.8
Motor liability	78,161	30.2	72,578	44.7	795	0.6
Professional liability	12	—	2,150	1.3	27,230	21.4
Specialty						
Health	47,749	18.4	40,210	24.7	16,489	13.0
Medical malpractice	5,703	2.2	4,641	2.9	6,197	4.9
Workers' compensation	26,326	10.2	16,348	10.1	—	—
	$ 258,818	100.0%	$ 162,395	100.0%	$ 127,131	100.0%

(1) Represents gross return premiums based on updated information received from the client.

Gross Premiums Written by Geographic Area of Risks Insured

	2009		2008		2007	
			($ in thousands)			
USA	$ 233,058	90.0%	$ 142,604	87.8%	$ 79,647	62.6%
Worldwide(1)	24,015	9.3	18,991	11.7	44,722	35.2
Europe	—	—	—	—	2,157	1.7
Caribbean	1,745	0.7	800	0.5	605	0.5
	258,818	100.0%	$ 162,395	100.0%	$ 127,131	100.0%

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

16. QUARTERLY FINANCIAL RESULTS (UNAUDITED)

		2009		
		Quarter ended		
	March 31	June 30	September 30	December 31
		($ in thousands)		
Revenues				
Gross premiums written	$ 71,871	$ 70,047	$ 65,983	$ 50,917
Gross premiums ceded	(1,220)	(6,611)	(2,894)	(2,551)
Net premiums written	70,651	63,436	63,089	48,366
Changes in net unearned premium reserves	(24,458)	(14,089)	(6,432)	14,117
Net premiums earned	46,193	49,347	56,657	62,483
Net investment income	27,717	88,323	32,628	51,193
Other income (expense)	2,124	(70)	(145)	2,629
Total revenues	76,034	137,600	89,140	116,305
Expenses				
Loss and loss adjustment expenses incurred, net	30,196	23,547	34,643	30,659
Acquisition costs, net	13,245	15,578	17,767	22,642
General and administrative expenses	4,378	5,330	4,081	5,205
Total expenses	47,819	44,455	56,491	58,506
Net income before non-controlling interest and income tax expense	28,215	93,145	32,649	57,799
Non-controlling interest in income of joint venture	(330)	(1,006)	(380)	(596)
Net income before income tax expense	27,885	92,139	32,269	57,203
Income tax benefit (expense)	(75)	57	(11)	78
Net income	$ 27,810	$ 92,196	$ 32,258	$ 57,281
Earnings per share				
Basic	$ 0.77	$ 2.54	0.89	1.58
Diluted	0.77	2.51	0.88	1.55
Weighted average number of ordinary shares used in the determination of				
Basic	36,078,258	36,252,925	36,286,514	36,312,262
Diluted	36,334,870	36,689,711	36,828,726	37,000,613

		2008		
		Quarter ended		
	March 31	June 30	September 30	December 31
		($ in thousands)		