

Greenlight Capital Re, Ltd.  
Form 10-K  
February 23, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008  
OR

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

For the transition period from      to

Commission file number 001-33493

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

Cayman Islands  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

The Grand Pavilion, 802 West Bay Road  
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<br>Registered |
|--|---|
| Class A ordinary shares,<br>\$0.10 par value per share | The Nasdaq Stock Market LLC             |

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

None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes  No

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

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

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

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

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

The aggregate market value of voting and non-voting Class A ordinary shares held by non-affiliates of the registrant as of June 30, 2008 was \$667,404,101 based on the closing price of the registrant's Class A ordinary shares reported on the Nasdaq Global Select Market on June 30, 2008, 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, 2009, there were 29,781,736 Class A ordinary shares outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's 2009 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, 2009 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,” “anticipate,” “estimate,” “intend,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled “Risk Factors” (refer to Part I, Item 1A) and include but are not limited to:

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

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ITEM 1. BUSINESS

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

| Reference             | Entity’s legal name          |
|-----------------------|------------------------------|
| Greenlight Capital Re | Greenlight Capital Re, Ltd.  |
| Greenlight Re         | Greenlight Reinsurance, Ltd. |

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 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.

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 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 select, customized reinsurance solutions 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;

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•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 securities 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. As of December 31, 2008, 82.9% of our investments in securities were invested in publicly-traded equity securities primarily traded on exchanges in North America and Western Europe. 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. 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.



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While we expect to establish a diversified 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:

- target markets where capacity and alternatives are underserved or constrained;
- employ strict underwriting discipline; and
- select reinsurance opportunities with favorable returns on equity over the life of the contract.

The following table sets forth our gross premiums written by line of business for the years ended December 31, 2008, 2007 and 2006:

|                        | 2008              |        | 2007       |        | 2006      |        |
|------------------------|-------------------|--------|------------|--------|-----------|--------|
|                        | (\$ in thousands) |        |            |        |           |        |
| Property               |                   |        |            |        |           |        |
| Commercial lines       | \$ 13,591         | 8.4%   | \$ 17,532  | 13.8%  | \$ 9,875  | 13.3%  |
| Personal lines         | (4,071) (1)       | (2.5)  | 41,291     | 32.5   | 58,063    | 78.3   |
| Casualty               |                   |        |            |        |           |        |
| General liability      | 16,948            | 10.4   | 17,597     | 13.8   | 4,388     | 5.9    |
| Marine                 | —                 | —      | —          | —      | 1,825     | 2.5    |
| Motor liability        | 72,578            | 44.7   | 795        | 0.6    | —         | —      |
| Professional liability | 2,150             | 1.3    | 27,230     | 21.4   | —         | —      |
| Specialty              |                   |        |            |        |           |        |
| Health                 | 40,210            | 24.7   | 16,489     | 13.0   | —         | —      |
| Medical malpractice    | 4,641             | 2.9    | 6,197      | 4.9    | —         | —      |
| Workers compensation   | 16,348            | 10.1   | —          | —      | —         | —      |
|                        | \$ 162,395        | 100.0% | \$ 127,131 | 100.0% | \$ 74,151 | 100.0% |

The following table sets forth our gross premiums written by the geographic area of the risk insured for the years ended December 31, 2008, 2007 and 2006:

|              | 2008              |        | 2007       |        | 2006      |        |
|--------------|-------------------|--------|------------|--------|-----------|--------|
|              | (\$ in thousands) |        |            |        |           |        |
| USA          | \$ 142,604        | 87.8%  | \$ 79,647  | 62.6%  | \$ 64,409 | 86.9%  |
| Worldwide(2) | 18,991            | 11.7   | 44,722     | 35.2   | 4,388     | 5.9    |
| Europe       | —                 | —      | 2,157      | 1.7    | 3,521     | 4.7    |
| Caribbean    | 800               | 0.5    | 605        | 0.5    | 500       | 0.7    |
| Japan        | —                 | —      | —          | —      | 1,333     | 1.8    |
|              | \$ 162,395        | 100.0% | \$ 127,131 | 100.0% | \$ 74,151 | 100.0% |

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

(2) “Worldwide” risk comprises 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.

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## 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 intend to build 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 intend to 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. During 2007, we 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, 2008, 2007 and 2006:

| Name of Broker                  | 2008       |       | 2007   |      | 2006   |      |
|---------------------------------|------------|-------|--------|------|--------|------|
|                                 | \$         | %\$   | \$     | %\$  | \$     | %\$  |
| Access Re                       | —          | —     | —      | —    | 4,000  | 5.4% |
| Aon Ltd                         | 8,241      | 5.1   | 35,417 | 27.9 | 5,375  | 7.3  |
| Cornerstone Re                  | 25,552     | 15.7  | —      | —    | —      | —    |
| Denis M Clayton                 | 7,500      | 4.6   | 7,500  | 5.9  | 2,325  | 3.1  |
| Frontline Insurance Managers(1) | (4,071)(2) | (2.5) | 41,291 | 32.5 | 58,063 | 78.3 |
| Gallagher Re                    | 27,495     | 16.9  | 1,997  | 1.6  | —      | —    |

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|   |                   |               |                   |               |                  |               |
|---|-------------------|---------------|-------------------|---------------|------------------|---------------|
| Guy Carpenter & Co                      | 9,910             | 6.1           | 1,958             | 1.5           | 2,025            | 2.7           |
| Lainston International Mgmt             | 5,955             | 3.7           | 12,112            | 9.5           | —                | —             |
| RIB Intermediaries                      | 9,329             | 5.7           | —                 | —             | —                | —             |
| Risk & Insurance Consulting, Inc        | 12,450            | 7.7           | 14,981            | 11.8          | —                | —             |
| Reinsurance Cooperative Associates, LLC | 50,000            | 30.8          | —                 | —             | —                | —             |
| Other                                   | 10,034            | 6.2           | 11,875            | 9.3           | 2,363            | 3.2           |
| <b>Total</b>                            | <b>\$ 162,395</b> | <b>100.0%</b> | <b>\$ 127,131</b> | <b>100.0%</b> | <b>\$ 74,151</b> | <b>100.0%</b> |

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(1) Frontline Insurance Managers, Inc. is a related party of First Protective Insurance Company, the counterparty to our largest contract bound in 2006.

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

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We believe that by maintaining close relationships with brokers, we are able to obtain access to a broad range of potential clients. 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 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 will help reduce any potential adverse effects arising out of the termination of any one of our business relationships.

### 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, will allow 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 will 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 favorable return on equity over the life of the contract. In pricing our products, we assume investment returns which approximate the risk-free rate, which we intend to 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 meets or exceeds our return on equity requirements before we commit capital. We price each transaction based on the merits and structure of the transaction.



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### 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 the 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, 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;

• allow the client to perform all claims adjusting and audits, as well as the funding and paying of claims, 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 the reinsurance contracts. 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.

### 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;

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- 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

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- 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 as our capital base increases.

### 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. 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 Standard & Poor's Rating Services. For non-rated reinsurers, we monitor and obtain collateral in the form of cash, funds withheld, or letters of credit. As of December 31, 2008, the aggregate amount due from reinsurers from retrocessional coverages represents 14.3% of our outstanding loss reserves. As of December 31, 2008, 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 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 not experienced a high volume of claims to date. Our claims management process initiates upon receipt of reports from our clients.

We have implemented a “cradle to grave” service philosophy where the same individual underwrites and administers the reinsurance contracts.

Underwriters review claims submissions 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 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 is a valuable service 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, 2008, we have two separate letter of credit facilities in an aggregate maximum amount of \$425.0 million. As of December 31, 2008, we have issued letters of credit totaling \$167.3 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.

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

### Regulations

#### Cayman Islands Insurance Regulation

Greenlight Re holds an Unrestricted Class B insurance license issued in accordance with the terms of the Insurance Law (as 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 practice in the Cayman Islands;

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

- to examine and report on the annual returns delivered to CIMA in terms of the Law; and
- to examine and make recommendations with respect to, among other things, proposals for the revocation of licenses and cases of suspected insolvency of licensed entities.

Where CIMA believes that a licensee is committing, or is about to commit or pursue, an act that is an unsafe or unsound business practice, CIMA may request that the licensee cease or refrain from committing the act or pursuing the offending course of conduct. 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.



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### 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 carryforward provision.

The loss carryforward 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 fee 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.

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. Each of the Greenlight Funds utilizes an investment strategy that may compete with or diverge from our investment strategy.

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.

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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 securities, selling securities short and investing in trade claims, debt securities of distressed issuers, arbitrage, bank loan participations, derivatives (including options, warrants, swaps and futures), commodities, currencies, leases, break-ups, consolidations, reorganizations, limited partnerships and similar securities of non-U.S. issuers.

## 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 and governments of the Organization of Economic Co-operation and Development, or the OECD, high income countries and cash, cash equivalents or United States government obligations.

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**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. No more than 10% of the assets in the investment portfolio will be held in private equity securities.

**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 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 securities, cash and funds held with brokers, derivatives, and securities sold, not yet purchased. The following table represents the fair value of our total long positions as reported in the financial statements as of December 31, 2008 and 2007:

|                                  | As of<br>December 31, 2008 |               | As of<br>December 31, 2007 |               |
|----------------------------------|----------------------------|---------------|----------------------------|---------------|
|                                  | (\$ in thousands)          |               |                            |               |
| Debt securities                  | \$ 70,214                  | 11.8%         | \$ 1,520                   | 0.2%          |
| Equities – listed (*)            | 409,329                    | 69.0          | 570,440                    | 84.7          |
| Equities – unlisted              | 11,897                     | 2.0           | 10,835                     | 1.6           |
| Options                          | 2,526                      | 0.5           | 6,215                      | 0.9           |
| Futures                          | —                          | —             | 1,526                      | 0.3           |
| Investments in securities        | 493,966                    | 83.3          | 590,536                    | 87.7          |
| Cash and funds held with brokers | 94,814                     | 16.0          | 100,495                    | 14.9          |
| Financial contracts, net         | 4,279                      | 0.7           | (17,524)                   | (2.6)         |
| <b>Total long investments</b>    | <b>\$ 593,059</b>          | <b>100.0%</b> | <b>\$ 673,507</b>          | <b>100.0%</b> |

(\*) As described in Note 3 to our financial statements, "Equities - listed" includes securities held in exchange traded funds (ETF), predominantly comprised of a gold ETF.

The following table represents the fair value of our total short positions as reported in the financial statements as of December 31, 2008 and 2007:

|                                | As of<br>December 31, 2008 |               | As of<br>December 31, 2007 |               |
|--------------------------------|----------------------------|---------------|----------------------------|---------------|
|                                | (\$ in thousands)          |               |                            |               |
| Equities – listed              | \$ 234,301                 | 100.0%        | \$ 332,706                 | 100.0%        |
| <b>Total short investments</b> | <b>\$ 234,301</b>          | <b>100.0%</b> | <b>\$ 332,706</b>          | <b>100.0%</b> |

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 and futures contracts is reported at its 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 equity option is the sensitivity of the option price to the underlying stock price. The delta adjusted basis is the number of shares underlying the option multiplied by the delta and the underlying stock price. The following table represents the composition of our investment portfolio based on the holdings in our investment account managed by DME Advisors as of December 31, 2008 and 2007:

| As of<br>December 31, 2008 |         | As of<br>December 31, 2007 |         |
|----------------------------|---------|----------------------------|---------|
| Long %                     | Short % | Long %                     | Short % |

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|                                |       |         |       |         |
|--------------------------------|-------|---------|-------|---------|
| Debt securities                | 11.8% | 0.0%    | 0.1%  | 0.0%    |
| Equities & related derivatives | 65.8  | (39.3)  | 91.0  | (51.7)  |
| Equities – unlisted            | 1.9   | —       | 1.2   | 0.0     |
| Other investments              | —     | (0.2)   | 0.7   | (7.6)   |
| Total                          | 79.5% | (39.5)% | 93.0% | (59.3)% |

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, 2008:

| Sector                | Long % | Short % | Net % |
|-----------------------|--------|---------|-------|
| Basic Materials       | 5.3%   | (5.3)%  | 0.0%  |
| Consumer Cyclical     | 5.5    | (5.8)   | (0.3) |
| Consumer Non-Cyclical | 2.5    | (3.4)   | (0.9) |
| Energy                | 6.3    | (1.5)   | 4.8   |
| Financial             | 20.6   | (18.4)  | 2.4   |
| Healthcare            | 1.9    | (2.6)   | (0.7) |
| Industrial            | 20.9   | (2.5)   | 18.4  |
| Technology            | 12.6   | (0.1)   | 12.5  |
| Utilities             | 3.9    | 0.0     | 3.9   |
| Total                 | 79.5%  | (39.5)% | 40.1% |

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, 2008:

| Capitalization                  | Long % | Short % | Net %  |
|---------------------------------|--------|---------|--------|
| Large Cap Equity (≥\$5 billion) | 16.9%  | (22.1)% | (5.1)% |
| Mid Cap Equity (≥\$1 billion)   | 32.7   | (16.2)  | 16.6   |
| Small Cap Equity (<\$1 billion) | 16.2   | (1.1)   | 15.1   |
| Debt Instruments                | 11.8   | (0.0)   | 11.6   |
| Other Investments               | 1.9    | (0.2)   | 1.9    |
| Total                           | 79.5%  | (39.5)% | 40.1%  |

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## Investment Returns

A summary of our consolidated net investment (loss) income for the years ended December 31, 2008, 2007 and 2006 is as follows:

|  | 2008              | 2007      | 2006      |
|--|-------------------|-----------|-----------|
|  | (\$ in thousands) |           |           |
| Realized gains (losses) and change in unrealized gains and losses, net | \$ (118,667)      | \$ 28,051 | \$ 70,272 |
| Interest, dividend and other income                                    | 31,093            | 23,443    | 11,704    |
| Interest, dividend and other expenses                                  | (28,651)          | (9,219)   | (4,775)   |
| Investment advisor compensation  | (9,901)           | (14,633)  | (18,692)  |
| Net investment (loss) income   | \$ (126,126)      | \$ 27,642 | \$ 58,509 |

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   | 2008    | 2007   | 2006  | 2005  | 2004    |
|-----------|---------|--------|-------|-------|---------|
| 1st       | (0.9)%  | (4.2)% | 7.5%  | 2.2%  | —%      |
| 2nd       | 4.5%    | 6.8    | 2.9   | 5.4   | —       |
| 3rd       | (15.9)% | (0.8)  | 6.2   | 3.0   | 1.3     |
| 4th       | (5.3)%  | 4.2    | 5.9   | 2.9   | 3.9     |
| Full Year | (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](http://www.greenlightre.ky). DME Advisors may choose not to disclose certain positions to its clients in order to protect its investment strategy. Therefore, we present on our website the largest positions held by us that are disclosed by DME Advisors or its affiliates to their other clients.

## Internal Risk Management

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. Backup information is stored off-site in order to minimize the risk of a loss of data in the event of a disaster.

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, 2008, we had 13 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](http://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.



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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;
- our ability to assess and integrate our risk management strategy properly; and
- the performance of our investment portfolio.

In particular, we seek to 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 securities, 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, 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;

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- 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.

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.”

Our losses may exceed our loss reserves, which could significantly and negatively affect our business.

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 a focus on 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

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rates of return on investments 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 and floods), fluctuations in interest rates, changes in the investment environment that affect market prices of investments and inflationary pressures, affect the industry's profitability. The effects of cyclicalities could significantly and negatively affect our financial condition and results of operations.

A recession and other 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.

Global market and economic conditions have been severely disrupted. These conditions may potentially 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. Continued volatility in the U.S. and other securities markets may adversely affect 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 which may affect such an analysis include:

if we change our business practices from our organizational business plan in a manner that no longer supports 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.

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.

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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, including underwriters, 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 delayed or 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 (2006 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.





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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.

As of December 31, 2008, we had letter of credit facilities in a maximum amount of \$425.0 million, of which \$167.3 million had been issued. 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 the letter of credit facility, we have the right, at our option, to reduce the outstanding obligations under the 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 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 our letter of credit facility 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.

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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.

Markets in the United States and elsewhere have been experiencing extreme volatility and disruption for more than 12 months, due in part to financial stresses affecting the liquidity of the banking system and the financial markets generally. In recent months, this volatility and disruption has reached unprecedented levels. These circumstances have also exerted downward pressure on stock prices and reduced access to the equity and debt markets for many issuers, including us. This unprecedented market volatility and general decline in the markets has affected our investment portfolio, results of operations, and may reduce our access to capital and may increase the cost of capital.

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.

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

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

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

In some of our proportional reinsurance business, in which we assume an agreed percentage of each underlying insurance contract being reinsured, or quota share contracts, we do not expect to separately evaluate each of the

original individual risks assumed under these reinsurance contracts. Therefore, we will be largely dependent on the original underwriting decisions made by ceding companies. We will be subject to the risk that the clients may not have adequately evaluated the insured risks and that the premiums ceded may not adequately compensate us for the risks we assume. We also do not expect to separately evaluate

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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.

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.

For the year ended December 31, 2008, we had purchased \$16.4 million in reinsurance for the liabilities we reinsure, which we refer to as retrocessional coverage. From time to time, we may purchase retrocessional coverage for our own account 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.

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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 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.

In addition, CIMA could revoke or suspend our license if we are deemed to be a passive foreign investment company, or PFIC, or an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. 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

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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 do not presently expect that we will be admitted to do business in any jurisdiction other than 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 United Kingdom 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 United Kingdom 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 Statement of Financial Accounting Standards, or SFAS, No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts" 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 analyses with respect to risk transfer and believe that to date all of our contracts contain sufficient risk transfer under SFAS 113 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

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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 contracts could call into question our exception under the Investment Company Act.

The outcome of recent industry investigations and regulatory proposals could adversely affect our financial condition and results of operations and cause the price of our shares to be volatile.

The insurance industry has attracted increased scrutiny by regulatory and law enforcement authorities relating to allegations of improper special payments, price-fixing, bid-rigging, improper accounting practices and other alleged misconduct. Formal and informal inquiries have been made of a large segment of the industry, and a number of companies in the insurance industry have received subpoenas, requests for information from regulatory agencies or other inquiries relating to these and similar matters. These efforts have resulted in both enforcement actions and proposals for new regulation. Although some of these enforcement actions have been settled and we are not subject to the United States regulatory regime, we cannot predict the outcome of this increased regulatory scrutiny or whether it will expand into other areas, whether activities and practices currently thought to be lawful will be characterized as unlawful, what form new regulations will have when finally adopted or the impact, if any, of increased regulatory and law enforcement action on our business and results of operations.

### 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. The loss of DME Advisors' principals or other 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. 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.

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. Our investment income (loss) for the years ended December 31, 2008, 2007 and 2006 were \$(126.1) million, \$27.6 million, and \$58.5 million, respectively, compared to total revenue of \$(11.2) million, \$125.7 million, and \$86.1 million, respectively.

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.

Deterioration in the public debt and equity markets could lead to additional investment losses.

The prolonged and severe disruptions in the public debt and equity markets, including among other things, widening of credit spreads, bankruptcies and government intervention in a number of large financial institutions, have resulted in significant realized and unrealized losses in our investment portfolio. For the year ended December 31, 2008, we incurred net investment losses of \$126.1 million. We continue to closely monitor current market conditions and evaluate the long term impact of this recent market volatility on all of our investment holdings. Depending on market conditions, we could incur additional realized and unrealized losses in future periods, which could have a significant and negative effect on our results of operations, financial condition and business. In addition, our reinsurers and retrocessionaires may be affected by such developments in the financial markets, which could adversely affect their ability to meet their obligations to us.

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

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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, 2008, we were invested in approximately 100 equity securities and the top five long and short positions in equity securities comprised an aggregate of 23% and 16% respectively, of our investment portfolio. Since our investment portfolio may not be widely diversified, it may be subject to more rapid changes in value than would be the case if the investment portfolio were required to maintain a wide diversification among companies, securities and types of securities.

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

We are exposed to credit risk primarily from the possibility that counterparties may default on their obligations to us. The amount of the maximum exposure to credit risk is indicated by the carrying value of our financial assets. In addition, we hold the securities of our investment portfolio with several prime brokers and have credit risk from the possibility that one or more of them may default on their obligations to us. Other than our investment in derivative contracts and corporate debt, if any, and the fact that our investments are held by prime brokers 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.



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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.

The loss by DME Advisors of key employees could materially adversely affect our investment results.

DME Advisors, and consequently our investment portfolio, 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. 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.

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.

DME Advisors is entitled to two forms of compensation under the advisory agreement:

- 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 carryforward provision.

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

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

DME Advisors may from time to time place its or its affiliates' representatives on creditors committees and/or boards of certain companies in which we have invested. While such representation may enable DME Advisors to enhance the

sale value of our investments, it may also place trading restrictions on our investments and may subject us to indemnification liability. The advisory agreement provides for the indemnification of DME Advisors or any other person designated by DME Advisors for claims arising from such board representation.



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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, 2008, 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. Additionally, as of December 31, 2008, representatives of DME Advisors sat on the board of directors of Ark Real Estate Partners LP, a privately-held company. As of December 31, 2008, our portfolio included investments in each of BioFuel Energy Corp., Einstein Noah Restaurant Group and Ark Real Estate Partners LP.

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.



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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.

In 2005, the SEC considered stricter oversight of the alternative investment industry. Effective February 10, 2005, the SEC adopted a new rule under the Investment Advisers Act of 1940 to require certain unregistered investment advisors to register with the SEC. In June 2006, a federal court of appeals vacated the SEC's rule, but we cannot assure you that other legislation or regulations will not be proposed and enacted. It is possible that increased regulation of alternative investment advisors would 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.

During 2008, the SEC and regulators in other countries imposed certain restrictions on shorting of securities for an extended period of time. We cannot provide any assurance that regulators will not impose the same or similar restrictions in the future. Such restrictions, if imposed again, could have a material negative impact on our ability to carry out our business strategy.

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.

DME Advisors is entitled to receive management fees regardless of the performance of our investment portfolio.

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

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- 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 carryforward provision.

The loss carryforward 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.

### Risks Relating to our Class A Ordinary Shares

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

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

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

Our Articles contain certain provisions that could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. Our Articles provide that a director may only be removed for “Cause” as defined in the Articles, upon the affirmative vote of not less than 50% of 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.

Unlike many jurisdictions in the United States, Cayman Islands law does not provide for mergers as that term is understood under corporate law in the United States. Cayman Islands law does have statutory provisions that provide for the reconstruction and amalgamation of companies, which are commonly referred to in the Cayman Islands as “schemes of arrangement.” The procedural and legal requirements necessary to consummate these transactions are 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 in relation to a Cayman Islands company 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.

The convening of these meetings and the terms of the amalgamation must also 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:

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- the statutory provisions as to majority vote have been complied with;
- the shareholders have been fairly represented at the meeting in question;
- the scheme of arrangement is such as a businessman would reasonably approve; and

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

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

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

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

We are incorporated as an exempted company limited by shares under the Companies Law. A significant amount of our assets are located outside of the United States. As a result, it may be difficult for persons purchasing 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.

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

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

Unlike many jurisdictions in the United States, Cayman Islands law does not specifically provide for shareholder appraisal rights on a merger or consolidation of an entity. This may make it more difficult for shareholders to assess the value of any consideration they may receive in a merger or consolidation or to require that the offeror give a shareholder additional consideration if he believes the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies such as ours have no general rights under Cayman Islands law to inspect corporate records and accounts. Our directors have discretion under our Articles to determine whether or not, and under what conditions, the corporate records may be inspected by shareholders, but are not obligated to make them available to shareholders. This fact may make it more difficult for shareholders to obtain the information needed

to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

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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 at December 31, 2008, David Einhorn owned 17.4% 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.

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### 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.”

We may be subject to United States federal income taxation.

We 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 our 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 we are engaged in a trade or business within the United States. If the IRS were to successfully assert that we 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: we may become subject to current United States federal income taxation on our net income from sources within the United States; we may be subject to United States federal income tax on a portion of our net investment income, regardless of its source; we may not be entitled to deduct certain expenses that would otherwise be deductible from the income subject to United States taxation; and we 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 was a PFIC for 2007 through 2008. We cannot provide assurance that either Greenlight Capital Re or Greenlight Re will not be a PFIC in 2009 or 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

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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

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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 Cayman Islands' letter of commitment or other concessions to 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. In the OECD's 2000 report, the Cayman Islands was not listed as a tax haven jurisdiction because it had previously committed itself to eliminate harmful tax practices and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. We are not able to predict what changes will arise from the commitment or whether such changes will subject us to additional taxes.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments regarding our current or periodic reports.

## ITEM 2. PROPERTIES

We currently lease office space in Grand Cayman, Cayman Islands under an operating lease that expires on August 31, 2010. On July 9, 2008, we entered into an additional operating lease agreement for new office space in the Cayman Islands which expires on June 30, 2018. Once we have occupied the new office space, we will no longer require the use of our current office space and we believe that for the foreseeable future the new office space will be

sufficient for us to conduct 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, 2008.

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## PART II

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

## (A) 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.

|                | 2008     |          | 2007     |          |
|----------------|----------|----------|----------|----------|
|                | High     | Low      | High     | Low      |
| First Quarter  | \$ 21.46 | \$ 16.30 | n/a      | n/a      |
| Second Quarter | \$ 23.85 | \$ 16.75 | \$ 25.50 | \$ 21.96 |
| Third Quarter  | \$ 23.50 | \$ 15.80 | \$ 24.58 | \$ 18.88 |
| Fourth Quarter | \$ 19.00 | \$ 8.67  | \$ 22.25 | \$ 18.92 |

## (B) Holders

As of February 1, 2009, the number of holders of record of our Class A ordinary shares was approximately 42, not including beneficial owners of shares registered in nominee or street name.

## (C) 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, 2008, Greenlight Re exceeded the minimum statutory capital requirement by \$488.1 million. Any dividends we pay will be declared and paid in U.S. dollars.

## (D) Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2008 with respect to the Company's Class A ordinary shares that may be issued upon the exercise of options, warrants and restricted stock granted to employees, consultants or members of the board of directors under all of our existing compensation plans, including the 2004 Stock Incentive Plan, or the Stock Incentive Plan, each as amended.



| Plan category   | Number of securities<br>to be issued<br>upon exercise of<br>outstanding options,<br>warrants and rights<br>(a) | Weighted-average<br>exercise price of<br>outstanding options,<br>warrants and rights<br>(b) | Number of securities<br>remaining available<br>for<br>future issuance under<br>equity compensation<br>plans<br>(excluding securities<br>reflected in column<br>(a))<br>(c) |
|---|--|---|--|
| Equity compensation plans approved<br>by security holders     | 1,608,340(1)   | \$ 12.56  | 439,054(2)   |
| Equity compensation plans not<br>approved by security holders | —  | —   | —  |
| <b>Total</b>  | <b>1,608,340(1)</b>  | <b>\$ 12.56</b>   | <b>439,054(2)</b>  |

(1) Includes 1,258,340 Class A ordinary shares issuable upon the exercise of options that were outstanding under the Stock Incentive Plan as of December 31, 2008. Also includes 400,000 Class A ordinary shares issuable upon the exercise of share purchase options granted in 2004 to a consultant, First International Capital Holdings, Ltd., or FIC, less 50,000 Class A ordinary shares relating to the re-purchase of share purchase options from FIC in December 2007.

(2) Represents the difference between the number of securities issuable under the Stock Incentive Plan (2,000,000) and the number of securities issued under the Stock Incentive Plan as of December 31, 2008 (1,560,946). The number of securities to be issued under the Stock Incentive Plan consists of options to acquire 1,259,000 Class A ordinary shares as well as 301,946 issued shares.

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## (E) 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, 2008 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.

## (F) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information with respect to purchases of our Class A ordinary shares during the three months ended December 31, 2008:

| Period                                | Total Number<br>of<br>Shares<br>Purchased | Average Price<br>Paid per Share | Total Number<br>of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans<br>or Programs <sup>1</sup> | Maximum<br>Number of<br>Shares that<br>May Yet<br>Be Purchased<br>Under<br>the Plans or<br>Programs <sup>1</sup> |
|---------------------------------------|---|---------------------------------|---|--|
| October 1, 2008 to October 31, 2008   | 0   | \$ 0                            | 0   | 2,000,000  |
| November 1, 2008 to November 30, 2008 | 63,900                                    | \$ 10.19                        | 63,900  | 1,936,100  |
| December 1, 2008 to December 31, 2008 | 165,000                                   | \$ 10.16                        | 165,000   | 1,771,100  |
| Total                                 | 228,900                                   | \$ 10.17                        | 228,900   | 1,771,100  |

<sup>1</sup> On August 5, 2008 the Company's Board of Directors adopted a share repurchase plan authorizing the Company to purchase up to two 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.

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## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical statement of income data for the fiscal years ended December 31, 2008, 2007, 2006 and 2005 and the period from inception on July 13, 2004 to December 31, 2004, as well as our selected balance sheet data as of December 31, 2008, 2007, 2006, 2005 and 2004, 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,                               |            |            |            | July 13,<br>2004<br>to December<br>31,<br>2004 |
|--|---|------------|------------|------------|--|
|  | 2008  | 2007       | 2006       | 2005       | 2004   |
|  | (\$ in thousands, except per share and share amounts) |            |            |            |  |
| <b>Summary Statement of Income Data</b>  |   |            |            |            |  |
| Gross premiums written   | \$ 162,395  | \$ 127,131 | \$ 74,151  | \$ —       | —  |
| Net premiums earned  | 114,949   | 98,047     | 26,605     | —          | —  |
| Net investment income (loss)   | (126,126)   | 27,642     | 58,509     | 27,934     | 9,636  |
| <b>Loss and loss adjustment expenses</b>                                       |   |            |            |            |  |
| incurred, net  | 55,485  | 39,507     | 9,671      | —          | —  |
| Acquisition costs, net   | 41,649  | 38,939     | 10,415     | —          | —  |
| General and administrative expenses  | 13,756  | 11,918     | 9,063      | 2,992      | 3,377  |
| Net income (loss)  | \$ (120,904)  | \$ 35,325  | \$ 56,999  | \$ 26,265  | \$ 6,775                                       |
| <b>Earnings (Loss) Per Share Data(1)</b>                                       |   |            |            |            |  |
| Basic  | \$ (3.36)   | \$ 1.17    | \$ 2.67    | \$ 1.24    | \$ 0.32  |
| Diluted  | (3.36)  | 1.15       | 2.66       | 1.24       | 0.32   |
| <b>Weighted average number of ordinary shares used in the determination of</b> |   |            |            |            |  |
| Basic  | 35,970,479  | 30,311,639 | 21,366,140 | 21,226,868 | 21,225,000                                     |
| Diluted  | 35,970,479  | 30,813,243 | 21,457,443 | 21,265,801 | 21,234,350                                     |
| <b>Selected Ratios (based on U.S. GAAP Statement of Income data)</b>           |   |            |            |            |  |
| Loss ratio(2)  | 48.3%   | 40.3%      | 36.4%      | —          | —  |
| Acquisition cost ratio(3)  | 36.2%   | 39.7%      | 39.1%      | —          | —  |
| Internal expense ratio(4)  | 12.0%   | 12.2%      | 34.1%      | —          | —  |
| Combined ratio(5)  | 96.5%   | 92.2%      | 109.6%     | —          | —  |

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|   | As of December 31,                                    |            |            |            |            |
|---|---|------------|------------|------------|------------|
|   | 2008  | 2007       | 2006       | 2005       | 2004       |
|   | (\$ in thousands, except per share and share amounts) |            |            |            |            |
| <b>Selected Balance Sheet Data:</b>       |   |            |            |            |            |
| Total investments in securities           | \$ 493,966  | \$ 590,536 | \$ 243,522 | \$ 219,211 | \$ 162,204 |
| Cash and cash equivalents                 | 94,144  | 64,192     | 82,704     | 7,218      | 30,664     |
| Restricted cash and cash equivalents      | 248,330   | 371,607    | 154,720    | 99,719     | 96,791     |
| Total assets                              | 958,005   | 1,094,145  | 518,608    | 327,935    | 290,764    |
| Loss and loss adjustment expense reserves | 81,425  | 42,377     | 4,977      | —          | —          |
| Unearned premium reserves                 | 88,926  | 59,298     | 47,546     | —          | —          |
| Total liabilities                         | 472,623   | 488,563    | 206,441    | 96,113     | 94,240     |
| Total shareholders' equity                | 485,382   | 605,582    | 312,167    | 231,822    | 196,524    |
| Adjusted book value(6)                    | \$ 485,382  | \$ 605,582 | \$ 312,167 | \$ 248,034 | \$ 221,024 |
| <b>Ordinary shares outstanding:</b>       |   |            |            |            |            |
| Basic                                     | 36,036,685  | 36,102,736 | 21,557,228 | 21,231,666 | 21,225,000 |
| Diluted                                   | 37,357,685  | 37,631,736 | 23,094,900 | 22,175,000 | 21,645,000 |
| <b>Per Share Data:</b>                    |   |            |            |            |            |
| Basic adjusted book value per share(7)    | \$ 13.47  | \$ 16.77   | \$ 14.48   | \$ 11.68   | \$ 10.41   |
| Diluted adjusted book value per share(8)  | 13.39   | 16.57      | 14.27      | 11.63      | 10.21      |

- (1) Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding for the period, exclusive of unvested stock awards. Diluted earnings per share is calculated by taking into account the effects of exercising all dilutive stock options and stock awards. For a period in which there is a net loss, stock options and unvested stock awards are excluded from the weighted average number of ordinary shares, when computing diluted earnings per share, since their inclusion would have been anti-dilutive for the year.
- (2) The loss ratio is calculated by dividing loss and loss adjustment expenses 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 plus 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) Basic adjusted book value per share is calculated by dividing adjusted book value by the number of shares issued and outstanding at year end.
- (8) Diluted adjusted book value per share is calculated by dividing the aggregate of adjusted book value and the proceeds from the exercise of options by the diluted number of shares and share equivalents outstanding at year end.



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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, 2008, 2007 and 2006 and financial condition as of December 31, 2008 and 2007. 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.

In September 2008, the Cayman Islands Monetary Authority granted approval for the Company's request to amend its business plan enabling 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 program. As of the date of this filing, we had not written any long-term business. However, as part of our opportunistic strategy, we now have the license to selectively evaluate opportunities relating to long-term business.

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 are not yet possible and may not be meaningful. In addition, our historical investment results may not necessarily be indicative of future performance. In addition, due to the nature of our reinsurance and investment strategies, our operating results will likely fluctuate from period to period.

Segments

We manage our business on the basis of one operating segment: property and casualty reinsurance, in accordance with the qualitative and quantitative criteria established by SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." Within the property and casualty reinsurance segment, we analyze our underwriting operations using two categories:

- frequency business; and
- severity business.

Frequency business is characterized by contracts containing a potentially large number of 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.

### 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 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 management and performance fees we pay to our investment advisor. We net these expenses against investment income in our financial statements.

General and administrative expenses consist primarily of salaries and benefits and related costs, including costs associated with our incentive compensation plan, stock compensation expenses, 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.

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**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. 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 the client's initial estimates and then adjust the estimates as advised by our client. We believe that the client's estimate of the volume of business it expects to cede to us represents the best estimate of gross premiums written at the beginning of the contract. 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.

We account for reinsurance contracts in accordance with Statement of Financial Accounting Standards (SFAS) No. 60, "Accounting and Reporting by Insurance Enterprises," and SFAS No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts." 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, we account for the contract as a deposit liability.

**Investments.** Effective January 1, 2008, we adopted SFAS No. 157, "Fair Value Measurements," which resulted in no material changes in the valuation techniques we previously used for measuring fair values. Our investments in debt and equity securities that are classified as "trading securities" are carried at fair value. The fair values of the listed equity and debt investments are derived based on last reported price on the balance sheet date as reported by a recognized exchange. The fair values of private debt securities 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 securities are valued using cash flow models using assumptions and estimates that may be subjective and non-observable.

Our other investments in private equity securities, limited partnerships, futures, exchange traded options and over-the-counter ("OTC") options, 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 market value based on quoted prices in active markets. For OTC options or 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 SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," 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.** 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 any adjustments to the estimates are recorded in the period in which they are determined. Under generally accepted accounting principles in the United States ("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 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.

Loss and loss adjustment expense reserves as of December 31, 2008 and 2007 were comprised of the following:

|              | December 31, 2008 |                  |                  | December 31, 2007 |                  |                  |
|--------------|-------------------|------------------|------------------|-------------------|------------------|------------------|
|              | Case Reserves     | IBNR             | Total            | Case Reserves     | IBNR             | Total            |
|              | (\$ in thousands) |                  |                  |                   |                  |                  |
| Frequency    | \$ 6,666          | \$ 49,127        | \$ 55,793        | \$ 1,712          | \$ 34,477        | \$ 36,189        |
| Severity     | —                 | 25,632           | 25,632           | —                 | 6,188            | 6,188            |
| <b>Total</b> | <b>\$ 6,666</b>   | <b>\$ 74,759</b> | <b>\$ 81,425</b> | <b>\$ 1,712</b>   | <b>\$ 40,665</b> | <b>\$ 42,377</b> |

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 in the pricing analysis. In our pricing analyses, we typically utilize a significant amount of information both from the individual client and from industry data. Where practical, we compare 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. 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 complete our analyses for all contracts for all lines of business. The information 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 also may receive information by class or subclass of business. As we are a new company, we currently rely more on client and industry data than our own data to identify unusual trends requiring changes in reserve estimates. Where available, we 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. 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

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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.

**Bornheutter-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 use this method for lines of business and contracts where there are limited historical paid losses.

**Bornheutter-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 use this method for lines of business and contracts where there are limited historical reported losses.

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. In setting our reserves, we do not use a range of estimates that may be subject to adjustment. Accordingly, at the end of each period, we will establish reserves at a point estimate based upon all information then available. 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.

Our aggregate reserves are the sum of the point estimate of all contracts. Because our reserves are the sum of our point estimates, we do not adjust our reserves from the amounts our actuaries determine. We perform a quarterly loss reserve analysis on each contract. This analysis may incorporate some or all of the information described above, using some or all of the methodologies described above. Each contract is analyzed every quarter regardless of the line of business. 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. We also have our loss reserves reviewed, at least on an annual basis, by an independent outside actuary who tests and reviews the work done by our actuaries to corroborate that reserves we report are being established consistently and appropriately.

**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. 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.

**Share-Based Payments.** We have established a Stock Incentive Plan for directors, employees and consultants which we account under SFAS 123R, "Share-Based Payments." SFAS 123R 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



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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 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 the most 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

During 2008 the insurance industry as a whole suffered significant loss of capital as a result of combined investment and underwriting losses. As a result we believe there is very little, if any, excess capacity in the industry. We expect the 2009 underwriting year to begin presenting opportunities for us to expand our business in both frequency and severity risks. We believe insurance pricing will increase generally and volatile lines of business may experience significant pricing increases along with tightening terms and conditions. Due to worldwide economic conditions and the lack of capital expected to enter the industry, we believe that these conditions will persist during 2010. Countering these developments, we also believe that a slowdown in worldwide economic activity will lead to reduced insurable risk exposures, which in turn will somewhat decrease the demand for insurance.

Due to our increasing market recognition, and the development of strategic relationships in 2007 and 2008, we expect to see an increase in frequency business written in 2009 compared to 2008, and continued diversification of business by client, line of business, broker and geography. In the second quarter of 2008, we believed there was an excess of capacity in the property and casualty reinsurance business, primarily due to two consecutive years of below-average natural peril losses. During the third quarter of 2008, there were two hurricanes (Gustav and Ike) that made landfall in the United States; preliminary estimates indicate total industry-wide insured losses range from \$20 to \$25 billion. We do not expect to experience any losses from these hurricanes. In addition, there are a number of insurers and reinsurers that have had significant investment-related issues that have created uncertainty in their businesses. We expect write downs of certain asset classes in the fourth quarter of 2008 to continue to reduce the capital positions of a number of reinsurers. Finally, we believe that the financial and credit crisis currently underway in the U.S. and the rest of the world has the potential to cause significant losses in certain lines of business.

If the current challenges facing the insurance industry create significant dislocations, we believe we will be well positioned to capitalize on resulting opportunities. In early 2009, we have seen pricing of property catastrophe retrocession business increase substantially. While it is unclear what other businesses could be most affected by the current financial and credit issues, we believe that opportunities are likely to arise in two areas. The first area is lines of business that have experienced poor loss experience. The second area is lines of business where current market participants are experiencing financial distress or uncertainty. Lines of business that are likely to be affected by either of these areas include property catastrophe reinsurance, marine reinsurance, marine retrocession, general liability, surety, directors and officers liability and errors and omissions liability, among others. In addition, we believe that we can also continue to find attractive opportunities in motor liability, workers compensation, health and medical malpractice risks.

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





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Our investment strategy has been affected by the difficulties faced by the overall financial markets. We believe that over the past few months, the marketplace has increased the risk premium on most asset classes as a result of headline news events, including corporate failures, recent government interventions, current economic slowdown and the ever-widening credit crisis. We believe that when the macro economic and political uncertainties eventually subside, security selection will again be the primary driver of performance. This is a basic premise of our value oriented investment strategy. While this has created disappointing investment results for our strategy over the last 12 months, we believe that this also creates long-term opportunities for us due to a significant number of mispriced securities.

The significant economic slowdown has resulted in an increased number of corporate failures. We believe that corporate default rates will continue to increase through 2009. As opportunistic investors, we have started to purchase distressed debt of corporate issuers in the last quarter of 2008, and expect to continue doing so in 2009.

We intend to continue monitoring market conditions to be positioned 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, 2008, 2007 and 2006

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

For the year ended December 31, 2007, our net income decreased by \$21.7 million as compared to the same period in 2006 due to a decrease of \$30.9 million in net investment income which was partially offset by income generated from expanded underwriting operations. Our investment portfolio reported a return of 5.9% for the year ended December 31, 2007 compared to a return of 24.4% for the year ended December 31, 2006.

Our primary financial goal is to increase the long-term value in fully diluted book value per share. During the year ended December 31, 2008, fully diluted book value decreased by \$3.18 per share or 19.2% to \$13.39.

For the year ended December 31, 2007, fully diluted book value increased by \$2.30 per share or 16.1% to \$16.57 per share. This increase included the increase associated with our initial public offering in May 2007.

## Premiums Written

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

|           | 2008              |        | 2007       |        | 2006      |        |
|-----------|-------------------|--------|------------|--------|-----------|--------|
|           | (\$ in thousands) |        |            |        |           |        |
| Frequency | \$ 134,012        | 82.5%  | \$ 76,885  | 60.5%  | \$ 58,063 | 78.3%  |
| Severity  | 28,383            | 17.5   | 50,246     | 39.5   | 16,088    | 21.7   |
| Total     | \$ 162,395        | 100.0% | \$ 127,131 | 100.0% | \$ 74,151 | 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

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year ended December 31, 2008, frequency business generated 74.3% higher premiums written than for the year ended December 31, 2007. The increase reflects the 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 is consistent with our opportunistic underwriting strategy.

For the year ended December 31, 2008, the premiums written relating to severity contracts decreased by 43.5% compared to the year ended December 31, 2007. The decrease is 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. The premiums on this contract continue to be earned over the multi-year term of the contract as discussed below under "Net Premiums Earned."

For the year ended December 31, 2007, the increase in premiums written for frequency business compared to 2006 was due to the fact that no frequency contracts were written until the third quarter of 2006 while a number of frequency contracts were entered into throughout 2007. Similarly, premiums written for severity business in 2007 reflect our first full year of underwriting whereas the 2006 comparative results related to premiums written from April 2006 (commencement of our underwriting operations) to December 31, 2006.

We entered into retrocessional contracts with ceded premiums of \$16.4 million and \$26.1 million for the years ended December 31, 2008, and 2007 respectively, relating to risks assumed from certain frequency reinsurance contracts. The lower ceded premiums for the year ended December 31, 2008 were 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.

We did not purchase any retrocessional coverage in 2006.

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

|           | 2008       |        | 2007              |        | 2006      |        |
|-----------|------------|--------|-------------------|--------|-----------|--------|
|           |            |        | (\$ in thousands) |        |           |        |
| Frequency | \$ 117,616 | 80.6%  | \$ 50,735         | 50.2%  | \$ 58,063 | 78.3%  |
| Severity  | 28,383     | 19.4   | 50,246            | 49.8   | 16,088    | 21.7   |
| Total     | \$ 145,999 | 100.0% | \$ 100,981        | 100.0% | \$ 74,151 | 100.0% |

Our severity business includes contracts that contain or may contain natural peril loss exposure. As of February 1, 2009, our maximum aggregate loss exposure to any series of natural peril events was \$97.1 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, 2009:

| Zone | Single            | Aggregate |
|------|-------------------|-----------|
|      | Event             | Loss      |
|      | Loss              | Loss      |
|      | (\$ in thousands) |           |

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|                   |    |        |    |        |
|-------------------|----|--------|----|--------|
| USA(1)            | \$ | 79,375 | \$ | 97,125 |
| Europe            |    | 71,375 |    | 79,125 |
| Japan             |    | 71,375 |    | 79,125 |
| Rest of the world |    | 51,375 |    | 59,125 |
| Maximum aggregate |    | 79,375 |    | 97,125 |

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(1) Includes the Caribbean

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## 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:

|           | 2008              |        | 2007      |        | 2006      |        |
|-----------|-------------------|--------|-----------|--------|-----------|--------|
|           | (\$ in thousands) |        |           |        |           |        |
| Frequency | \$ 81,133         | 70.6%  | \$ 71,596 | 73.0%  | \$ 15,645 | 58.8%  |
| Severity  | 33,816            | 29.4   | 26,451    | 27.0   | 10,960    | 41.2   |
| Total     | \$ 114,949        | 100.0% | \$ 98,047 | 100.0% | \$ 26,605 | 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 13.3% reflects the additional quota share contracts written throughout the 2008 year. For the year ended December 31, 2008, 73.6% of the earned premiums on frequency contracts related to motor liability and health lines of business. For the year ended December 31, 2008, severity earned premiums increased 27.8% compared to the 2007 year. As mentioned above under the section "Premiums Written," the earned premiums on severity contracts increased while the written premiums on severity contracts decreased during the year ended December 31, 2008. This was due to a multi-year professional liability contract written during the year ended December 31, 2007, which continues 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.

For the year ended December 31, 2007, the significant increases in net premiums earned were attributable principally to increased premiums written during 2007 as well as further earning of premiums for those contracts written during 2006 whose coverage continued into 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:

|           | 2008              |        | 2007      |        | 2006     |        |
|-----------|-------------------|--------|-----------|--------|----------|--------|
|           | (\$ in thousands) |        |           |        |          |        |
| Frequency | \$ 36,013         | 64.9%  | \$ 34,252 | 86.7%  | \$ 8,737 | 90.3%  |
| Severity  | 19,472            | 35.1   | 5,255     | 13.3   | 934      | 9.7    |
| Total     | \$ 55,485         | 100.0% | \$ 39,507 | 100.0% | \$ 9,671 | 100.0% |

The loss ratio on our frequency business was 44.4%, 47.9% and 55.9% for the years ended December 31, 2008, 2007 and 2006, respectively. The decrease in loss ratio is mainly due to the favorable loss development on a personal lines contract written in 2006.

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We expect losses incurred on our severity business to be volatile from period to period. Losses incurred on the natural peril exposed portion of our severity business have benefited from no material natural peril losses during 2008, as well as benign natural peril loss experiences during 2007 and 2006. Additionally, given the seasonality of wind exposure, we expect that the first six months of a calendar year generally will report lower losses incurred on natural peril business than the last six months of a calendar year. The loss ratios for our severity business were 57.7%, 19.9%, and 8.5% for the years ended December 31, 2008, 2007 and 2006, respectively.

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.

The increase in the loss ratio during 2007 primarily is due to the different composition of the severity underwriting portfolio. During the year ended December 31, 2006, the severity underwriting portfolio was composed entirely of natural peril business. Because of benign natural peril loss experience, we incurred a very low loss ratio. This contrasts with the severity underwriting portfolio for the year ended December 31, 2007 which included casualty and liability exposures in addition to natural peril risks, which accounted for the increase in the reported loss ratio for the year ended December 31, 2007. Unlike natural peril coverages in which zero losses are booked until a covered natural peril event occurs, casualty and liability severity coverages typically have the potential for an unreported event to occur during the term of the coverage and thus IBNR reserves are booked based on an expected loss ratio for the business underwritten, resulting in a higher initial loss ratio being reported.

Losses incurred can be further broken down into losses paid and changes in loss reserves. Losses incurred for the years ended December 31, 2008, 2007 and 2006 were comprised as follows:

|                                    | 2008              |                    |                  | 2007             |                    |                  | 2006            |          |                 |
|------------------------------------|-------------------|--------------------|------------------|------------------|--------------------|------------------|-----------------|----------|-----------------|
|                                    | Gross             | Ceded              | Net              | Gross            | Ceded              | Net              | Gross           | Ceded    | Net             |
|                                    | (\$ in thousands) |                    |                  |                  |                    |                  |                 |          |                 |
| Losses paid                        | \$ 29,791         | \$ (8,440)         | \$ 21,351        | \$ 15,505        | \$ (6,677)         | \$ 8,828         | \$ 4,694        | \$ 0     | \$ 4,694        |
| Increase (decrease)<br>in reserves | 39,075            | (4,941)            | 34,134           | 37,400           | (6,721)            | 30,679           | 4,977           | 0        | 4,977           |
| <b>Total</b>                       | <b>\$ 68,866</b>  | <b>\$ (13,381)</b> | <b>\$ 55,485</b> | <b>\$ 52,905</b> | <b>\$ (13,398)</b> | <b>\$ 39,507</b> | <b>\$ 9,671</b> | <b>0</b> | <b>\$ 9,671</b> |

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 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;
- Extinguishing \$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.

There were no significant developments of prior year reinsurance reserves during the year ended December 31, 2007.

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:

|           | 2008              |        | 2007      |        | 2006      |        |
|-----------|-------------------|--------|-----------|--------|-----------|--------|
|           | (\$ in thousands) |        |           |        |           |        |
| Frequency | \$ 37,989         | 91.2%  | \$ 33,174 | 85.2%  | \$ 6,386  | 61.3%  |
| Severity  | 3,660             | 8.8    | 5,765     | 14.8   | 4,029     | 38.7   |
| Total     | \$ 41,649         | 100.0% | \$ 38,939 | 100.0% | \$ 10,415 | 100.0% |



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Increased acquisition costs for the year ended December 31, 2008 compared to the same period for 2007 are a direct result of the increases in premiums written as well as the accrual of higher profit commission on frequency contracts that have had favorable underwriting results. For the years ended December 31, 2008, 2007 and 2006 the acquisition cost ratios for frequency business were 46.8%, 46.3% and 40.8%, respectively. We expect that acquisition costs will be higher for frequency business than for severity business. The acquisition cost ratios for severity business were 10.8%, 21.8% and 36.8% for the years ended December 31, 2008, 2007 and 2006, respectively.

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 inceptioned in the later part of the second quarter of 2007, had no acquisition costs associated with them.

For the year ended December 31, 2007, the decrease in severity acquisition cost ratio was due to the change in composition of the severity portfolio from being composed entirely of natural peril business, to a portfolio that included casualty and professional liability exposures as well as natural peril business.

## General and Administrative Expenses

Our general and administrative expenses for the years ended December 31, 2008, 2007 and 2006 were \$13.8 million, \$11.9 million and \$9.1 million, respectively. For the year ended December 31, 2008, the increase in general and administrative expenses of \$1.9 million primarily relates to higher personnel costs including employee bonus accruals relating to the 2007 year.

For the year ended December 31, 2007, the increase in general and administrative expenses of \$2.8 million reflected the continued expansion of our underwriting operations, as well as increased expenses incurred as a publicly-traded company, including hiring additional staff and other related expenses. General and administrative expenses for the years ended December 31, 2008, 2007 and 2006 include \$3.0 million, \$2.9 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:

|  | 2008              | 2007      | 2006      |
|--|-------------------|-----------|-----------|
|  | (\$ in thousands) |           |           |
| Realized gains (losses) and change in unrealized gains and losses, net | \$ (118,667)      | \$ 28,051 | \$ 70,272 |
| Interest, dividend and other income                                    | 31,093            | 23,443    | 11,704    |
| Interest, dividend and other expenses                                  | (28,651)          | (9,219)   | (4,775)   |
| Investment advisor compensation  | (9,901)           | (14,633)  | (18,692)  |
| Net investment income (loss)   | \$ (126,126)      | \$ 27,642 | \$ 58,509 |

Investment loss, net of all fees and expenses, resulted in a loss of 17.6% on our investment portfolio for the year ended December 31, 2008. This compares to returns of 5.9% and 24.4% reported for the years ended December 31, 2007 and 2006, 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. Given the net investment loss for the year ended December 31, 2008, no performance fee 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 have been recouped and an additional amount equal to 150% of the investment loss is earned.



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

## 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.

## 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, 2008, 2007 and 2006, we reported the following ratios:

|                        | 2008      |          |       | 2007      |          |       | 2006      |          |        |
|------------------------|-----------|----------|-------|-----------|----------|-------|-----------|----------|--------|
|                        | Frequency | Severity | Total | Frequency | Severity | Total | Frequency | Severity | Total  |
| Loss ratio             | 44.4%     | 57.7%    | 48.3% | 47.9%     | 19.9%    | 40.3% | 55.9%     | 8.5%     | 36.4%  |
| Acquisition cost ratio | 46.8%     | 10.8%    | 36.2% | 46.3%     | 21.8%    | 39.7% | 40.8%     | 36.8%    | 39.1%  |
| Composite ratio        | 91.2%     | 68.5%    | 84.5% | 94.2%     | 41.7%    | 80.0% | 96.7%     | 45.3%    | 75.5%  |
| Internal expense ratio |           |          | 12.0% |           |          | 12.2% |           |          | 34.1%  |
| Combined ratio         |           |          | 96.5% |           |          | 92.2% |           |          | 109.6% |

The loss ratio is calculated by dividing 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. The internal expense ratio for year ended December 31, 2008 decreased to 12.0% from 12.2% for the year ended December 31, 2007. We expect our internal expense ratio to decrease as we continue to expand our underwriting operations. The high internal expense ratio of 34.1% reported for the year ended December 31, 2006 reflected that underwriting operations only commenced in April 2006 and as such start up costs were high relative to the initial premiums earned.

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.

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### Financial Condition

#### Investments in Securities

Total investments in securities reported as of December 31, 2008 were \$494.0 million compared to \$590.5 million as of December 31, 2007, a decrease of 16.3%. The decrease in investments was principally due to an investment loss of \$126.1 million for the year ended December 31, 2008. This decrease was partially offset by investments purchased from the net positive cash flows generated from underwriting operations.

Effective January 1, 2008, we adopted SFAS No. 157. Consistent with SFAS No. 157, our entire 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, 2008, 84.3% of our investment portfolio (excluding restricted and unrestricted cash and cash equivalents) was comprised of securities valued based on quoted prices in actively traded markets (Level 1), 13.7% comprised of securities valued based on observable inputs other than quoted prices (Level 2) and 2.0% 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, 2008, \$82.2 million of our investments in securities were valued based on broker quotes, of which \$80.5 million were based on observable market information and classified as level 2, and \$1.7 million were based on non-observable inputs and classified as level 3.

Non-observable inputs used by our investment advisor include discounted cash flow models for valuing certain corporate debt securities. 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

Restricted cash totaled \$248.3 million as of December 31, 2008 compared to \$371.6 million as of December 31, 2007, a decrease of 33.2%. The decrease in restricted cash was principally due to a decrease in securities sold, not yet purchased since restricted cash balances are used to support the liability created from securities sold, not yet purchased.

#### Loss and Loss Adjustment Expense Reserves

Loss reserves totaled \$81.4 million as of December 31, 2008 compared to \$42.4 million as of December 31, 2007. The increase is principally attributable to estimated losses associated with premiums earned during the year ended December 31, 2008 resulting from our increased underwriting activities. Case reserves increased \$5.0 million, while reserves for losses incurred but not reported increased by approximately \$34.1 million as of December 31, 2008.

#### Shareholders' Equity

Our shareholders' equity decreased to \$485.4 million as of December 31, 2008 from \$605.6 million as of December 31, 2007, a decrease of 19.8%. The decrease is principally attributable to the net loss of \$120.9 million for the year ended December 31, 2008.



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### 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 operations are conducted through our sole reinsurance subsidiary, Greenlight Reinsurance, Ltd., which underwrites risks associated with our property and casualty reinsurance programs. There are restrictions on Greenlight Reinsurance, Ltd.'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, 2008, the financial strength of our reinsurance subsidiary 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, including realized gains. 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. Our investment portfolio is primarily comprised of publicly-traded securities, which we classify as trading securities and can be liquidated to meet current liabilities. We believe that we have sufficient flexibility to liquidate the long securities that we own in a rising market to generate liquidity. Similarly, we can generate liquidity in a declining market from our short portfolio by covering securities and by freeing up restricted cash no longer required for collateral.

For the year ended December 31, 2008, we generated \$46.4 million in net cash flow from operations, used \$14.1 million in investing activities, and used \$2.3 million to repurchase ordinary shares. Effective January 1, 2008, we adopted SFAS No. 159 and as a result 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.

For the year ended December 31, 2007, we used \$273.7 million for operating activities. Included in operating activities were securities and restricted cash and cash equivalents purchased from the proceeds of our initial public offering. During the year ended December 31, 2007, substantially all our cash provided by financing activities related to the proceeds from our initial public offering and there were no cash flows reported from investing activities.

As of December 31, 2008, 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





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requirement for Greenlight Re is \$120,000. As of December 31, 2008 Greenlight Re exceeded the minimum required by \$488.1 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 not licensed or admitted as a reinsurer in any jurisdiction other than the Cayman Islands. Because many jurisdictions do not permit domestic insurance companies to take credit on their statutory financial statements unless appropriate measures are in place from 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.

Greenlight Re has a letter of credit facility of \$400.0 million as of December 31, 2008 with Citibank, N.A. with a termination date of October 11, 2009. 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, 2008, the Company had a \$25.0 million letter of credit facility with Butterfield Bank (Cayman) Limited (“Butterfield Bank”). This facility is the result of a novation to Butterfield Bank of a letter of credit facility previously issued by UniCredit Bank Cayman Islands Ltd (formerly Bank Austria Cayman Islands Ltd).

As of December 31, 2008, \$167.3 million in letters of credit were issued from the available \$425.0 million facilities. Under the letter of credit facilities, we provide collateral that may consist of equity securities. As of December 31, 2008, we had pledged \$220.2 million of equity securities and cash equivalents as collateral for the above letter of credit facilities. The letter of credit facilities agreements contain various covenants that, in part, restrict Greenlight Re’s ability to place a lien or charge on the pledged assets and further restricts 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, 2008, the Company was in compliance with all of the covenants under each of the letter of credit facility agreements.

### Capital

As of December 31, 2008, total shareholders’ equity was \$485.4 million compared to \$605.6 million at December 31, 2007. This decrease in total shareholders’ equity principally is due to the net loss of \$120.9 million reported during the year ended December 31, 2008.

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 as part of our capital structure. However, we cannot provide assurances that in the future, we will not be required to raise additional equity or incur indebtedness to implement our business strategy, pay claims or make acquisitions. We have not made any significant capital expenditures during the period from inception to December 31, 2008. We anticipate incurring approximately \$1.0 million in capital expenditures during 2009 primarily related to leasehold improvements. We anticipate funding these capital expenditures from existing operations and do not anticipate requiring additional equity or indebtedness relating to these expenditures.

On August 5, 2008, the Board adopted a share repurchase plan authorizing management to repurchase up to two million Class A ordinary shares. Management may from time to time repurchase these 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



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variety of factors including price, market conditions and applicable regulatory and corporate requirements. The plan, which expires on June 30, 2011, does not require management to repurchase any specific number of shares and may be modified, suspended or terminated at any time without prior notice. As of December 31, 2008, 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, 2008:

|  | Less<br>than<br>1 year | 1-3<br>years     | 3-5<br>years     | More<br>than 5<br>years | Total             |
|--|------------------------|------------------|------------------|-------------------------|-------------------|
|  | (\$ in thousands)      |                  |                  |                         |                   |
| Operating leases obligations(1)              | \$ 376                 | \$ 621           | \$ 552           | \$ 1,243                | \$ 2,792          |
| Specialist service agreement                 | 610                    | 550              | —                | —                       | 1,160             |
| Private equity investments(2)                | 19,695                 | —                | —                | —                       | 19,695            |
| Loss and loss adjustment expense reserves(3) | 34,379                 | 25,130           | 10,418           | 11,498                  | 81,425            |
| <b>Total</b>                                 | <b>\$ 55,060</b>       | <b>\$ 26,301</b> | <b>\$ 10,970</b> | <b>\$ 12,741</b>        | <b>\$ 105,072</b> |

(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, 2008 we have made total commitments of \$29.6 million in private investments, of which we have invested \$9.9 million, and our remaining commitments to these investments total \$19.7 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 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.

As of 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 commence from the earlier of December 1, 2008 or when we occupy the premises. As of December 31, 2008, we had not occupied the premises. 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 the accompanying consolidated financial statements.

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Effective September 1, 2007, we entered into a service agreement with a specialist service provider whereby the specialist service provider provides administration and support in developing and maintaining relationships, reviewing and recommending programs and managing risks on 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 after two years, the Company is obligated to make minimum payments for another two years to ensure any bound contracts are adequately run-off by the specialist service provider.

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 advisory agreement is January 1, 2008 through December 31, 2010, with automatic three-year renewals unless either Greenlight Re or DME Advisors terminate 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.

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, 2008, our investment portfolio consisted primarily of long and short equity securities, along with certain equity-based derivative instruments, the carrying values of which are primarily based on quoted market prices. Generally, market prices of common equity securities are subject to fluctuation, which could cause the amount to be realized upon the closing of the position to differ significantly from the current reported value.

This risk is partly mitigated by the presence of both long and short equity securities. As of December 31, 2008, a 10% decline in the price of each of these listed equity securities and equity-based derivative instruments would result in a \$15.9 million, or 2.7%, decline in the fair value of the total investment portfolio.

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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, 2008, 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 and investments in securities denominated in foreign currencies, we are exposed to foreign currency risk. Foreign currency exchange rate risk is the potential for loss in the U.S. dollar value of investments and speculative foreign cash positions due to a decline in the exchange rate of the foreign currency in which the cash and investments are denominated. As of December 31, 2008, our gross exposure to foreign denominated cash and securities was approximately \$204.6 million. As of December 31, 2008, none of our currency exposures resulting from these foreign denominated securities were hedged, therefore leading to a net exposure to foreign currencies of \$204.6 million. As of December 31, 2008, a 10% increase in the value of the U.S. dollar against select foreign currencies would result in a \$20.5 million, or 3.5%, decrease in the value of the investment portfolio. A summary of our total net exposure to foreign currencies as of December 31, 2008 is as follows:

| Original Currency   | US\$<br>Equivalent<br>Fair Value<br>(\$ in<br>thousands) |
|---------------------|--|
| European Union euro | \$ 130,568   |
| Hong Kong dollar    | 31,638   |
| Japanese yen        | 27,667   |
| Canadian dollar     | 10,736   |
| Other               | 4,031  |
| Total               | \$ 204,640   |

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 securities, 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 in interest rates and a 100 basis point decrease in interest rates would have on the value of our investment portfolio.

|                          |                          |
|--------------------------|--------------------------|
| 100 basis point increase | 100 basis point decrease |
|--------------------------|--------------------------|

|                                    | in interest rates  |   | in interest rates   |   |
|------------------------------------|--|---|---|---|
|                                    | Change in<br>fair value<br>as % of<br>investment<br>portfolio<br>(\$ in thousands) | Change in<br>fair value<br>as % of<br>investment<br>portfolio | Change in<br>fair value<br>as % of<br>investment<br>portfolio | Change in<br>fair value<br>as % of<br>investment<br>portfolio |
| Debt securities                    | \$ (558)   | (0.09)%   | \$ 594  | 0.10%   |
| Credit default swaps               | (524)  | (0.09)  | 436   | 0.07  |
| Interest rate options              | 1,725  | 0.29  | (1,001)   | (0.17)  |
| Net exposure to interest rate risk | \$ 643   | 0.11%   | \$ 29   | 0.01%   |

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 and cash in our investment portfolio are held with several prime brokers 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



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any, and the fact that our investments and majority of cash balances are held by prime brokers on our behalf, we have no significant concentrations of credit risk.

**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.

**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.

**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, 2008 that have materially affected, or are

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reasonably likely to materially affect, the Company's internal control over financial reporting. The Company continues to review its disclosure controls and procedures, including its internal controls over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company's systems evolve with its business.

### Management Report on Internal Control Over Financial Reporting

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

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on its financial statements.

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, 2008. 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

On February 18, 2009, the compensation committee of the Board of Directors recommended, and the Board of Directors approved, an amendment to the Amended and Restated Employment Agreement of Tim Courtis, our chief financial officer, dated as of December 30, 2008 (the "Courtis Agreement"). This amendment increased Mr. Courtis' target bonus from 50% of his annual base salary to 60% of his annual base salary effective January 1, 2009.

In addition, on February 18, 2009, the compensation committee of the Board of Directors recommended, and the Board of Directors approved, an amendment to the Amended and Restated Employment Agreement of Barton Hedges, the president and chief underwriting officer of Greenlight Re, dated as of December 30, 2008 (the "Hedges Agreement"). This amendment increased Mr. Hedges' annual base salary from \$450,000 to \$500,000 effective January 1, 2009.

The foregoing descriptions are qualified in its entirety by reference to the Courtis Agreement and Hedges Agreement, which are attached hereto as Exhibit 10.26 and Exhibit 10.27, respectively.

On February 20, 2009, the Company amended the agreement dated January 1, 2008, between Greenlight Reinsurance, Ltd., Greenlight Capital Re, Ltd. and DME Advisors, LP (the "advisory agreement") to amend the definition of "Carryforward Account" in Article 1 of the advisory agreement. The amended definition reads as follows:

"Carryforward Account" means a memorandum account to be recorded by DME in the books and records of the venture with respect to each Participant that has an initial balance of zero and that is adjusted as follows:

As of the first day after the close of each Performance Period for such Participant (prior to giving effect to the Performance Allocation, if any), the balance of the Carryforward Account (a) is increased by the amount, if any, equal to two and a half times such Participant's Negative Performance Charge for such Performance Period and (b) is reduced (but not below zero) by the amount, if any, of such Participant's Positive Performance Charge for such Performance Period."

The foregoing description is qualified in its entirety by reference to the advisory agreement amendment (Amendment No. 1) which is attached hereto as Exhibit 10.28.

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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.

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## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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| Exhibit<br>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)



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- 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
- 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
- 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
- 21.1 Subsidiaries of the registrant
- 23.1 Consent of BDO Seidman, LLP
- 24.1 Power of Attorney (included on the signature page of this filing)
- 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

Confidential treatment has been requested with respect to certain portions of this exhibit pursuant to Rule 406 of the Securities Act. Omitted portions have been filed separately with the Securities and Exchange Commission.

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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 23, 2009

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POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Leonard Goldberg, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments or supplements to this annual report on Form 10-K and to file the same with all exhibits thereto and other documents in connection therewith, with the SEC, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing necessary or appropriate to be done with this annual report on Form 10-K and any amendments or supplements hereto, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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 23, 2009

/s/ FRANK D. LACKNER  
Frank D. Lackner  
Director

Date: February 23, 2009

/s/ IAN ISAACS  
Ian Isaacs  
Director

Date: February 23, 2009

/s/ TIM COURTIS  
Tim Courtis  
Chief Financial Officer  
(principal financial and accounting officer)

Date: February 23, 2009

/s/ LEONARD GOLDBERG  
Leonard Goldberg  
Director & Chief Executive Officer  
(principal executive officer)

Date: February 23, 2009

/s/ ALAN BROOKS  
Alan Brooks  
Director

Date: February 23, 2009

/s/ JOSEPH P. PLATT  
Joseph P. Platt  
Director

Date: February 23, 2009

/s/ BRYAN MURPHY  
Bryan Murphy  
Director

Date: February 23, 2009

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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, 2008, 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's 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, 2008, 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, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 23, 2009 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP  
Grand Rapids, Michigan  
February 23, 2009



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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, 2008 and 2007 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. 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, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, 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, 2008, 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 23, 2009 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP  
Grand Rapids, Michigan  
February 23, 2009

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CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

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

|  | 2008       | 2007         |
|--|------------|--------------|
| Assets   |            |              |
| Investments in securities  |            |              |
| Debt securities, trading, at fair value  | \$ 70,214  | \$ 1,520     |
| Equity securities, trading, at fair value  | 409,329    | 570,440      |
| Other investments, at fair value   | 14,423     | 18,576       |
| Total investments in securities  | 493,966    | 590,536      |
| Cash and cash equivalents  | 94,144     | 64,192       |
| Restricted cash and cash equivalents   | 248,330    | 371,607      |
| Financial contracts receivable, at fair value  | 21,419     | 222          |
| Reinsurance balances receivable  | 59,573     | 43,856       |
| Loss and loss adjustment expense recoverables  | 11,662     | 6,721        |
| Deferred acquisition costs, net  | 17,629     | 7,302        |
| Unearned premiums ceded  | 7,367      | 8,744        |
| Other assets   | 3,915      | 965          |
| Total assets   | \$ 958,005 | \$ 1,094,145 |
| Liabilities and Shareholders' Equity   |            |              |
| Liabilities  |            |              |
| Securities sold, not yet purchased, at fair value  | \$ 234,301 | \$ 332,706   |
| Financial contracts payable, at fair value   | 17,140     | 17,746       |
| Loss and loss adjustment expense reserves  | 81,425     | 42,377       |
| Unearned premium reserves  | 88,926     | 59,298       |
| Reinsurance balances payable   | 34,963     | 19,140       |
| Funds withheld   | 3,581      | 7,542        |
| Other liabilities  | 6,229      | 2,869        |
| Minority interest in joint venture   | 6,058      | —            |
| Performance compensation payable to related party  | —          | 6,885        |
| Total liabilities  | 472,623    | 488,563      |
| 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, 29,781,736 (2007: 29,847,787); Class B: par value \$0.10; authorized, 25,000,000; issued and outstanding, 6,254,949 (2007: 6,254,949)) | 3,604      | 3,610        |
| Additional paid-in capital   | 477,571    | 476,861      |
| Retained earnings  | 4,207      | 125,111      |
| Total shareholders' equity   | 485,382    | 605,582      |
| Total liabilities and shareholders' equity   | \$ 958,005 | \$ 1,094,145 |

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GREENLIGHT CAPITAL RE, LTD.

## CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2008, 2007 and 2006

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

|  | 2008         | 2007       | 2006       |
|--|--------------|------------|------------|
| <b>Revenues</b>  |              |            |            |
| Gross premiums written   | \$ 162,395   | \$ 127,131 | \$ 74,151  |
| Gross premiums ceded   | (16,396)     | (26,150)   | —          |
| Net premiums written   | 145,999      | 100,981    | 74,151     |
| Change in net unearned premium reserves  | (31,050)     | (2,934)    | (47,546)   |
| Net premiums earned  | 114,949      | 98,047     | 26,605     |
| Net investment income (loss)   | (126,126)    | 27,642     | 58,509     |
| Interest income on related party promissory note receivable                    | —            | —          | 1,034      |
| Total revenues   | (11,177)     | 125,689    | 86,148     |
| <b>Expenses</b>  |              |            |            |
| Loss and loss adjustment expenses incurred, net                                | 55,485       | 39,507     | 9,671      |
| Acquisition costs, net   | 41,649       | 38,939     | 10,415     |
| General and administrative expenses  | 13,756       | 11,918     | 9,063      |
| Total expenses   | 110,890      | 90,364     | 29,149     |
| Net income (loss) before minority interest                                     | (122,067)    | 35,325     | 56,999     |
| Minority interest in loss of joint venture                                     | 1,163        | —          | —          |
| Net income (loss)  | \$ (120,904) | \$ 35,325  | \$ 56,999  |
| <b>Earnings (loss) per share</b>   |              |            |            |
| Basic  | \$ (3.36)    | \$ 1.17    | \$ 2.67    |
| Diluted  | (3.36)       | 1.15       | 2.66       |
| <b>Weighted average number of ordinary shares used in the determination of</b> |              |            |            |
| Basic  | 35,970,479   | 30,311,639 | 21,366,140 |
| Diluted  | 35,970,479   | 30,813,243 | 21,457,443 |



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## GREENLIGHT CAPITAL RE, LTD.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2008, 2007 and 2006

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

|  | 2008       | 2007       | 2006        |
|--|------------|------------|-------------|
| Ordinary share capital                   |            |            |             |
| Balance – beginning of year              | \$ 3,610   | \$ 2,156   | \$ 2,123    |
| Issue of Class A ordinary share capital  | 17         | 1,191      | 33          |
| Issue of Class B ordinary share capital  | —          | 263        | —           |
| Repurchase of Class A ordinary shares    | (23)       | —          | —           |
| Balance – end of year                    | \$ 3,604   | \$ 3,610   | \$ 2,156    |
| Additional paid-in capital               |            |            |             |
| Balance – beginning of year              | \$ 476,861 | \$ 219,972 | \$ 212,871  |
| Issue of Class A ordinary share capital  | 9          | 207,144    | 4,237       |
| Issue of Class B ordinary share capital  | —          | 49,737     | —           |
| Repurchase of Class A ordinary shares    | (2,311)    | —          | —           |
| Options repurchased                      | —          | (247)      | —           |
| Share-based compensation expense         | 3,000      | 2,884      | 2,864       |
| Initial public offering expenses         | —          | (2,629)    | —           |
| Short-swing sale profit from shareholder | 12         | —          | —           |
| Balance – end of year                    | \$ 477,571 | \$ 476,861 | \$ 219,972  |
| Related party promissory note receivable |            |            |             |
| Balance – beginning of year              | \$ —       | \$ —       | \$ (16,212) |
| Principal repayments received            | —          | —          | 16,212      |
| Balance – end of year                    | \$ —       | \$ —       | \$ —        |
| Retained earnings                        |            |            |             |
| Balance – beginning of year              | \$ 125,111 | \$ 90,039  | \$ 33,040   |
| Net income (loss)                        | (120,904)  | 35,325     | 56,999      |
| Options repurchased                      | —          | (253)      | —           |
| Balance – end of year                    | \$ 4,207   | \$ 125,111 | \$ 90,039   |
| Total shareholders' equity               | \$ 485,382 | \$ 605,582 | \$ 312,167  |

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GREENLIGHT CAPITAL RE, LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2008, 2007 and 2006  
(expressed in thousands of U.S. dollars, except per share and share amounts)

|   | 2008         | 2007        | 2006      |
|---|--------------|-------------|-----------|
| Cash provided by (used in)  |              |             |           |
| Operating activities  |              |             |           |
| Net income (loss)   | \$ (120,904) | \$ 35,325   | \$ 56,999 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities |              |             |           |
| Net change in unrealized gains and losses on securities and financial contracts                   | 151,064      | (23,719)    | (12,499)  |
| Net realized gains on securities and financial contracts  | (8,923)      | (13,215)    | (65,692)  |
| Foreign exchange gain on restricted cash and cash equivalents                                     | (23,474)     | —           | —         |
| Minority interest in loss of joint venture  | 1,163        | —           | —         |
| Share-based compensation expense  | 3,000        | 2,884       | 2,864     |
| Depreciation expense  | 40           | 40          | 20        |
| Purchases of securities   | —            | (1,044,933) | (244,645) |
| Sales of securities   | —            | 943,515     | 335,051   |
| Change in   |              |             |           |
| Restricted cash and cash equivalents  | —            | (216,887)   | (55,001)  |
| Financial contracts receivable, at fair value   | —            | (222)       | —         |
| Reinsurance balances receivable   | (15,717)     | (24,234)    | (19,622)  |
| Loss and loss adjustment expense recoverables   | (4,941)      | (6,721)     | —         |
| Deferred acquisition costs, net   | (10,327)     | 8,980       | (16,282)  |
| Unearned premiums ceded   | 1,377        | (8,744)     | —         |
| Other assets  | (2,990)      | 753         | (308)     |
| Financial contracts payable, at fair value  | —            | 9,106       | 7,918     |
| Loss and loss adjustment expense reserves   | 39,048       | 37,400      | 4,977     |
| Unearned premium reserves   | 29,628       | 11,752      | 47,546    |
| Reinsurance balances payable  | 15,823       | 14,904      | 4,236     |
| Funds withheld  | (3,961)      | 7,542       | —         |
| Other liabilities   | 3,360        | 495         | 1,483     |
| Performance compensation payable to related party   | (6,885)      | (7,739)     | 7,642     |
| Net cash provided by (used in) operating activities   | 46,381       | (273,718)   | 54,687    |
| Investing activities  |              |             |           |
| Purchases of securities and financial contracts   | (1,570,683)  | —           | —         |
| Sales of securities and financial contracts   | 1,404,904    | —           | —         |
| Restricted cash and cash equivalents  | 146,751      | —           | —         |
| Minority interest in joint venture  | 4,895        | —           | —         |
| Purchase of fixed assets  | —            | —           | (200)     |
| Proceeds on disposal of fixed assets  | —            | —           | 38        |
| Net cash used in investing activities   | (14,133)     | —           | (162)     |
| Financing activities  |              |             |           |
| Net proceeds from share issue   | 17           | 255,706     | 4,270     |
| Options repurchased   | —            | (500)       | —         |
| Net proceeds from exercise of stock options   | 9            | —           | —         |
| Repurchase of Class A ordinary shares   | (2,334)      | —           | —         |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| Short-swing sale profit from shareholder                                      | 12        | —         | —         |
| Collection of related party promissory note receivable                        | —         | —         | 16,212    |
| Net change in interest receivable on related party promissory note receivable | —         | —         | 479       |
| Net cash (used in) provided by financing activities                           | (2,296)   | 255,206   | 20,961    |
| Net increase (decrease) in cash and cash equivalents                          | \$ 29,952 | (18,512)  | 75,486    |
| Cash and cash equivalents at beginning of the year                            | 64,192    | 82,704    | 7,218     |
| Cash and cash equivalents at end of the year                                  | \$ 94,144 | \$ 64,192 | \$ 82,704 |
| Supplementary information   |           |           |           |
| Interest paid in cash   | \$ 14,099 | \$ 3,699  | \$ 2,121  |
| Interest received in cash   | 11,560    | 15,130    | 1,513     |

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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. (the “Subsidiary”), provides global specialty property and casualty reinsurance. The Subsidiary has an unrestricted Class “B” insurance license under Section 4(2) of the Cayman Islands Insurance Law. The Subsidiary commenced underwriting in April 2006. Effective May 30, 2007, GLRE completed an initial public offering of 11,787,500 Class A ordinary shares at \$19.00 per share. Concurrently, 2,631,579 Class B ordinary shares of GLRE were sold at \$19.00 per share as part of a private placement.

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 subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

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 Statement of Financial Accounting Standards (“SFAS”) No. 60, “Accounting and Reporting by Insurance Enterprises,” and SFAS No. 113, “Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts.” In the event that a reinsurance contract does not transfer sufficient risk, deposit accounting is used and the contract is reported as a deposit liability. There have been no contracts to date requiring deposit accounting.

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 as a pro-rata portion of the ultimate estimated premiums relating to the risks underwritten during the reporting 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.

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Premiums written are generally recognized as earned over the contract period in proportion to the period of protection. 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 the Company does not hold 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 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.

### Funds Withheld

Funds withheld include reinsurance balances retained from retrocessionaires for a period of time in accordance with the contract terms. The Company may incur interest expense during the period these funds are withheld.

### 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, 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.

### Financial Instruments

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

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements," which establishes a framework for measuring fair value by creating a hierarchy of fair value measurements based on inputs used in deriving fair values and enhances disclosure requirements for fair value measurements. The adoption of SFAS No. 157 had no material impact to the Company's results of operations or financial condition as there were no material changes in the valuation techniques used by the Company to measure fair value. The Company's investments in debt and equity securities that are classified as "trading securities" are carried at fair value. The fair values of the

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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 securities are derived based on inputs that are observable, either directly or indirectly, such as market maker or broker quotes reflecting recent transactions (Level 2 inputs), and are generally derived based on the average of multiple market maker or broker quotes which are considered to be binding. Where quotes are not available, debt securities 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 equity securities, limited partnerships, futures, 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 equity securities, where observable inputs are not available, the fair values are derived based on unobservable inputs (Level 3 inputs) such as management's assumptions developed from available information, using the services of the investment advisor. Amounts invested in exchange traded and OTC call and put options are recorded as an asset or liability at inception. Subsequent to initial recognition, unexpired exchange traded option contracts are recorded at fair market 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

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," establishes accounting and reporting standards for derivative instruments and hedging activities. It 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





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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 market 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).

The Company has adopted SFAS No. 123R, "Share-Based Payment," to account for the Company's stock incentive plan. SFAS No. 123R 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).



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## 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, notes receivable, prepaid expenses and fixed assets. Fixed assets, comprising of computer software, are recorded at cost and depreciated over the estimated useful life of three years using the straight-line method.

## Other Liabilities

Other liabilities consist primarily of dividends payable on securities sold, not yet purchased, and employee bonus accruals. Also included in other liabilities are accruals for professional fees and other general expenses.

## Minority Interest

Minority interest in joint venture represents DME Advisors LP's, or 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 minority interest in income or loss of joint venture.

## Comprehensive Income (Loss)

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

## Earnings (Loss) Per Share

Basic earnings (loss) per share is based on weighted average ordinary shares outstanding and excludes unvested stock awards and dilutive effects of stock options and stock awards. Diluted earnings per share assumes the exercise of all dilutive stock options and stock awards using the treasury stock method.

|   | 2008       | 2007       | 2006       |
|---|------------|------------|------------|
| Weighted average shares outstanding                               | 35,970,479 | 30,311,639 | 21,366,140 |
| Effect of dilutive service provider stock options                 | —          | 161,109    | 89,093     |
| Effect of dilutive employee and director options and stock awards | —          | 340,495    | 2,210      |
|   | 35,970,479 | 30,813,243 | 21,457,443 |

Due to the Company's net loss for the year ended December 31, 2008, all 1,878,689 stock options and stock awards outstanding have been excluded from the computation of diluted loss per share as their inclusion would have been anti-dilutive. As of December 31, 2007 and 2006, there were 50,000 and 1,131,000 anti-dilutive stock options outstanding, respectively.

## Segment Information

Under SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information” (“SFAS No. 131”), operating segments are based on the internal organization management uses for allocating resources to 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 SFAS No. 131.

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### Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements but applies whenever other standards require or permit assets or liabilities to be measured by fair value. The Company adopted SFAS No. 157 for its financial assets and financial liabilities effective January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on the Company’s consolidated financial statements.

In February 2008, the FASB approved the issuance of FASB Staff Position (“FSP”) FAS 157-2, “Effective Date of FASB Statement No. 157.” FSP FAS 157-2 defers the effective date of SFAS No. 157 until January 1, 2009 for non-financial assets and non-financial liabilities except those items recognized or disclosed at fair value on an annual or more frequently recurring basis. The implementation of this FSP is not expected to have a material impact on the Company’s results of operation or financial position.

In October 2008, the FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset when the Market for That Asset is Not Active.” This FSP clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP is effective from October 10, 2008, including prior periods for which financial statements have not been issued. The implementation of this FSP did not have a material impact on the Company’s results of operation or financial position.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates. For items for which the fair value option has been elected, unrealized gains and losses are to be reported in earnings at each subsequent reporting date. The fair value option is irrevocable unless a new election date occurs, may be applied instrument by instrument, with a few exceptions, and applies only to entire instruments and not to portions of instruments. SFAS No. 159 provides an opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting. The Company adopted SFAS No. 159 effective January 1, 2008. As a result, the unrealized gains and losses on the Company’s investments in private equity securities and limited partnerships are now included in net investment income in the consolidated statements of income, as opposed to other comprehensive income. The adoption of SFAS No. 159 did not have a material impact on the Company’s consolidated financial statements except for the change in presentation of cash flows relating to investments in the consolidated statement of cash flows as described below.

Additionally, SFAS No. 159 amended SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” such that cash flows relating to “trading securities” must be classified in the consolidated statement of cash flows based on the nature and purpose for which the securities were acquired. Prior to adopting SFAS No. 159, the Company classified cash flows relating to investments as operating activities. The Company has determined that activities that generate investment income or loss should be classified under investing activities to reflect the underlying nature and purpose of the Company’s investing strategies. Therefore, upon adoption of SFAS No. 159, the Company has classified cash flows relating to investments in securities, restricted cash and cash equivalents, and financial contracts receivable and payable, as investing activities. Prior period comparatives have not been reclassified.

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations.” SFAS No. 141R is effective for acquisitions during the fiscal years beginning after December 15, 2008 and early adoption is prohibited. This statement establishes principles and requirements for how the



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acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Management is reviewing this guidance; however, the effect of the statement's implementation will depend upon the extent and magnitude of acquisitions, if any, after December 31, 2008.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements — an amendment of ARB No. 51." SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and early adoption is prohibited. This statement establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Management is reviewing this guidance; however, the effect of the statement's implementation is not expected to be material to the Company's results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133." SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This statement changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how an entity accounts for the derivatives and hedged items, and how derivatives and hedged items affect an entity's financial position, performance and cash flows. Management is reviewing this guidance; however, the effect of the statement's implementation is not expected to be material to the Company's derivative disclosures.

In March 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts — an interpretation of FASB Statement No. 60." SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. Earlier application is not permitted except for disclosures about the risk-management activities of the insurance enterprise which is effective for the first interim period beginning after the issuance of SFAS No. 163. This statement requires an insurance enterprise to recognize a claim liability prior to an insured event when there is evidence that credit deterioration has occurred in an insured financial obligation. This statement also clarifies how FASB Statement No. 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Finally, this statement requires expanded disclosures about financial guarantee contracts focusing on the insurance enterprise's risk-management activities in evaluating credit deterioration in its insured financial obligations. The effect of the statement's implementation is not expected to be material to the Company's results of operations or financial position. As of December 31, 2008, the Company had no financial guarantee contracts that required expanded disclosures under this statement.

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees - An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161." This FSP applies to: (a) credit derivatives within the scope of SFAS No. 133, (b) hybrid instruments that have embedded credit derivatives; and (c) guarantees within the scope of FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This FSP amends SFAS No. 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends FIN 45 to require additional disclosure about the current status of the payment/performance risk of a guarantee. In addition, this FSP clarifies the FASB's intent that



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the disclosures required by SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," should be provided for any reporting period (annual or interim) beginning after November 15, 2008. The provisions of this FSP that amend SFAS No. 133 and FIN 45 are effective for reporting periods (annual or interim) ending after November 15, 2008. The clarification of the effective date of SFAS No. 161 is effective September 12, 2008. As a result of adopting this FSP, these consolidated financial statements include the disclosures relating to credit derivatives sold by the Company.

### 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 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 securities.

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 2008 were \$8.9 million (2007: \$13.2 million, 2006: \$65.7 million). Gross realized gains were \$271.3 million (2007: \$101.4 million, 2006: \$77.2 million) and gross realized losses were \$262.4 million (2007: \$88.2 million, 2006: \$11.5 million).

At December 31, 2008, investments with a fair market value of \$220.2 million (2007: \$148.9 million) have been pledged as security against letters of credit issued.

At December 31, 2008, there were no investments in excess of 10% of shareholders' equity (2007: Criteria CaixaCorp S.A. and Arkema with a fair value of \$74.2 million and \$61.4 million, respectively).

### Fair Value Hierarchy

Effective January 1, 2008, the Company adopted SFAS No. 157 and SFAS No. 159. As a result, all of 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 the date the Company adopted SFAS No. 159, remained unchanged from the carrying values of those securities immediately prior to electing the fair value option.

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

| Description                                      | Fair Value Measurements as of December 31, 2008       |   |  | Total as of<br>December<br>31, 2008 |
|--|---|---|--|-------------------------------------|
|  | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                                     |
|  | (\$ in thousands)                                     |   |  |                                     |
| Debt securities                                  | \$ —  | \$ 66,099   | \$ 4,115   | \$ 70,214                           |
| Listed equity securities                         | 409,329   | —   | —  | 409,329                             |
| Private equity securities                        | —   | 121   | 11,776   | 11,897                              |
| Call options                                     | 2,526   | —   | —  | 2,526                               |
| Financial contracts receivable (payable), net    | —   | 4,279   | —  | 4,279                               |
|  | \$ 411,855  | \$ 70,499   | \$ 15,891  | \$ 498,245                          |
| Listed equity securities, sold not yet purchased | \$ (234,301)  | \$ —  | \$ —   | \$ (234,301)                        |
|  | \$ 177,554  | \$ 70,499   | \$ 15,891  | \$ 263,944                          |

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

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

Transfers from Level 3 represent the fair value on the date of transfer 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, 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.

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## Investments in Securities

## Debt Securities, trading

At December 31, 2008, and 2007 included in debt securities, are the following investments:

| 2008                     | Cost/<br>amortized<br>cost | Unrealized<br>gains | Unrealized<br>losses | Fair<br>market<br>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 securities    | \$ 77,811                  | \$ 1,313            | \$ (8,910)           | \$ 70,214               |

| 2007                 | Cost/<br>amortized<br>cost | Unrealized<br>gains | Unrealized<br>losses | Fair<br>market<br>value |
|----------------------|----------------------------|---------------------|----------------------|-------------------------|
|                      | (\$ in thousands)          |                     |                      |                         |
| Corporate debt – U.S | \$ 1,458                   | \$ 78               | \$ (16)              | \$ 1,520                |

The maturity distribution for debt securities held at December 31, 2008 is as follows:

|                        | Cost/<br>amortized<br>cost | Fair<br>market<br>value |
|------------------------|----------------------------|-------------------------|
|                        | (\$ in thousands)          |                         |
| Within one year        | \$ 2,738                   | \$ 2,052                |
| From one to five years | 32,690                     | 30,673                  |
| From five to ten years | 34,924                     | 30,655                  |
| More than ten years    | 7,459                      | 6,834                   |
|                        | \$ 77,811                  | \$ 70,214               |

## Investment in Equity Securities, Trading

At December 31, 2008 and 2007, included in investment securities, trading are the following long positions:

| 2008                  | Cost              | Unrealized<br>gains | Unrealized<br>losses | Fair<br>market<br>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              |

| 2007              | Cost              | Unrealized<br>gains | Unrealized<br>losses | Fair<br>market<br>value |
|-------------------|-------------------|---------------------|----------------------|-------------------------|
|                   | (\$ in thousands) |                     |                      |                         |
| Equities – listed | \$ 561,419        | \$ 53,957           | \$ (44,936)          | \$ 570,440              |

#### Other Investments

“Other investments” include options as well as private 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

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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, 2008, the Company did not hold any OTC options (2007: \$243,000).

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

|                     | Cost      | Unrealized gains<br>(\$ in thousands) | Unrealized losses | Fair market value |
|---------------------|-----------|---------------------------------------|-------------------|-------------------|
| Equities – unlisted | \$ 15,395 | \$ 1,236                              | \$ (4,734)        | \$ 11,897         |
| Call options        | 2,133     | 393                                   | —                 | 2,526             |
|                     | \$ 17,528 | \$ 1,629                              | \$ (4,734)        | \$ 14,423         |

At December 31, 2007, included in other investments are the following securities:

|                     | Cost      | Unrealized gains<br>(\$ in thousands) | Unrealized losses | Fair market value |
|---------------------|-----------|---------------------------------------|-------------------|-------------------|
| Equities – unlisted | \$ 10,932 | \$ 150                                | \$ (247)          | \$ 10,835         |
| Call options        | 1,943     | 776                                   | (1,409)           | 1,310             |
| Put options         | 2,821     | 3,266                                 | (1,182)           | 4,905             |
| Futures             | —         | 1,526                                 | —                 | 1,526             |
|                     | \$ 15,696 | \$ 5,718                              | \$ (2,838)        | \$ 18,576         |

During the years ended December 31, 2008, 2007 and 2006, other-than-temporary impairment losses on unlisted equities of \$0, \$323,000 and \$1,454,000 respectively, were reported and included in net realized gains on securities under net investment income 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, 2008, the following securities are included in investments in securities sold, not yet purchased:

| 2008 | Proceeds<br>(\$ in thousands) | Unrealized gains | Unrealized losses | Fair market value |
|------|-------------------------------|------------------|-------------------|-------------------|
|------|-------------------------------|------------------|-------------------|-------------------|

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|                   |            |              |          |            |
|-------------------|------------|--------------|----------|------------|
| Equities - listed | \$ 343,079 | \$ (115,619) | \$ 6,841 | \$ 234,301 |
|-------------------|------------|--------------|----------|------------|

At December 31, 2007, the following securities are included in investments in securities sold, not yet purchased:

| 2007              | Proceeds<br>(\$ in thousands) | Unrealized<br>gains | Unrealized<br>losses | Fair market<br>value |
|-------------------|-------------------------------|---------------------|----------------------|----------------------|
| Equities - listed | \$ 394,988                    | \$ (73,379)         | \$ 11,097            | \$ 332,706           |

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At December 31, 2008 and 2007, 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, 2008 and 2007, 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 market value of the underlying or reference security.

The fair value of financial contracts outstanding at December 31, 2008 is as follows:

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

As of December 31, 2008, 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 term of 5 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, 2008, based on the assessment conducted by the Company's investment advisor, the risk of default does not appear to be likely. As of December 31, 2008, the reference entity had a financial strength rating of (A2) and a surplus notes rating of (Baa1) from Moody's Investors Service. The fair market value of the CDS at December 31, 2008 was \$7.0 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, 2007 is as follows:

| Underlying security                                 | Position | Listing currency | Fair market value of underlying (\$ in thousands) | Net assets/ (obligations) on financial contracts |
|---|----------|------------------|---|--|
| Total return swaps - Commodities                    | Short    | USD              | 108   | \$ 108   |
| Total return swaps - Equities                       | Long     | CAD              | 512   | 114  |
| Total financial contracts receivable, at fair value |          |                  |   | \$ 222   |



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|  |       |     |         |    |          |
|--|-------|-----|---------|----|----------|
| Total return swaps - Equities                    | Long  | USD | 31,368  | \$ | (10,315) |
| Total return swaps - Commodities                 | Short | USD | (7,431) |    | (7,431)  |
| Total financial contracts payable, at fair value |       |     |         | \$ | (17,746) |

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## 4. CASH AND CASH EQUIVALENTS

|                                      | 2008              | 2007      |
|--------------------------------------|-------------------|-----------|
|                                      | (\$ in thousands) |           |
| Cash at banks                        | \$ 17,179         | \$ 2,306  |
| Cash held with (due to) brokers      | (89,048)          | 1,888     |
| Money market funds held with brokers | 166,013           | 59,998    |
|                                      | \$ 94,144         | \$ 64,192 |

Due to the short term nature of cash and cash equivalents, management believes the above noted carrying values approximate their fair market 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.

|                                   | 2008              | 2007       |
|-----------------------------------|-------------------|------------|
|                                   | (\$ in thousands) |            |
| Cash held by prime brokers        | \$ 230,481        | \$ 332,998 |
| Cash held by swap counter-parties | 17,849            | 38,609     |
|                                   | \$ 248,330        | \$ 371,607 |

Effective January 1, 2008, upon adoption of SFAS No. 159, 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 SFAS No. 159, 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:

|                              | 2008              | 2007     | 2006    |
|------------------------------|-------------------|----------|---------|
|                              | (\$ in thousands) |          |         |
| Gross balance at January 1   | \$ 42,377         | \$ 4,977 | \$ —    |
| Less: Losses recoverable     | (6,721)           | —        | —       |
| Net balance at January 1     | 35,656            | 4,977    | —       |
| Incurring losses related to: |                   |          |         |
| Current year                 | 67,473            | 40,584   | 9,671   |
| Prior year                   | (11,988)          | (1,077)  | —       |
| Total incurred               | 55,485            | 39,507   | 9,671   |
| Paid losses related to:      |                   |          |         |
| Current year                 | (14,069)          | (7,126)  | (4,694) |
| Prior year                   | (7,282)           | (1,702)  | —       |

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|                              |           |           |          |
|------------------------------|-----------|-----------|----------|
| Total paid                   | (21,351)  | (8,828)   | (4,694)  |
| Foreign currency revaluation | (27)      | —         | —        |
| Net balance at December 31   | 69,763    | 35,656    | 4,977    |
| Add: Losses recoverable      | 11,662    | 6,721     | —        |
| Gross balance at December 31 | \$ 81,425 | \$ 42,377 | \$ 4,977 |

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For the year ended December 31, 2008, the incurred losses relating to prior years include 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;
  - Extinguishing \$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; and
- 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 related 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, 2008 and 2007, loss and loss adjustment expense reserves were comprised of the following:

|               | 2008              | 2007      |
|---------------|-------------------|-----------|
|               | (\$ in thousands) |           |
| Case reserves | \$ 6,666          | \$ 1,712  |
| IBNR          | 74,759            | 40,665    |
| Total         | \$ 81,425         | \$ 42,377 |

## 7. RETROCESSION

The Company utilizes retrocession agreements to reduce the risk of loss on business assumed. The Company currently has in place 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, 2008, loss and loss adjustment expenses incurred are net of loss and loss expenses recovered and recoverable of \$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, 2008, the company had loss and loss adjustment expense recoverables of \$0.2 million (2007: \$0) with a retrocessionaire rated "A+ (Superior)" by A.M. Best. At December 31, 2008, the Company had loss recoverables of \$0 (2007: \$1.3 million) with retrocessionaires rated "A (Excellent)" or higher by A.M. Best. Additionally, the Company has loss recoverables of \$11.5 million (2007: \$5.4 million) with unrated retrocessionaires. At December 31, 2008, 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

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and after liquidation of any issued and outstanding preferred shares. At December 31, 2008, 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 financial statements of the registration rights granted pursuant to the Shareholders' Agreement.

Shares authorized for issuance are comprised of 350,000 (2007: 350,000) Class A ordinary shares in relation to share purchase options granted to a service provider and 2,000,000 (2007: 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, 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.

During the year ended December 31, 2004, the Company issued 5,050,000 Class B ordinary shares valued at \$50.5 million to Greenlight Capital Investors, LLC (“GCI”), an affiliated company. The Company received \$26.0 million in cash and the remaining balance of \$24.5 million was secured by a promissory note receivable which provided that GCI was to pay interest calculated as the one-year London Interbank Offered Rate (“LIBOR”) plus 3% per annum and accrued daily. Interest was to be paid annually on the promissory note anniversary date, and the principal was to be repaid no later than August 11, 2009. During the year ended December 31, 2006, GCI repaid the remaining principal balance of \$16.2 million (2005: \$8.3 million) and \$1.5 million (2005: \$1.4 million) of interest relating to the promissory note receivable.

On January 10, 2007, 1,426,630 Class B ordinary shares were transferred from 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 two million of its Class A ordinary shares from time to

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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.

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

| As at December 31,               | 2008       |           | 2007       |             | 2006       |           |
|----------------------------------|------------|-----------|------------|-------------|------------|-----------|
|                                  | Class A    | Class B   | Class A    | Class B     | Class A    | Class B   |
| Balance – beginning of year      | 29,847,787 | 6,254,949 | 16,507,228 | 5,050,000   | 16,181,666 | 5,050,000 |
| Issue of ordinary shares         | 162,849    | —         | 11,913,929 | 2,631,579   | 325,562    | —         |
| Transfer from Class B to Class A | —          | —         | 1,426,630  | (1,426,630) | —          | —         |
| Repurchase of ordinary shares    | (228,900)  | —         | —          | —           | —          | —         |
| Balance – end of year            | 29,781,736 | 6,254,949 | 29,847,787 | 6,254,949   | 16,507,228 | 5,050,000 |

Under the Companies Law of the Cayman Islands, the Company cannot hold treasury shares; therefore, all ordinary shares repurchased are cancelled immediately upon repurchase.

The Subsidiary 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 stock options expense and stock 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, 2008, the Company had reserved for issuance 2,000,000 Class A ordinary shares (2007: 2,000,000) for eligible participants.

### 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. On December 24, 2007, the Company repurchased 50,000 share purchase options at a price of \$10 per option.

### 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, 2008, 141,465 (2007: 108,160) restricted Class A ordinary shares were issued to employees as part of 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 vest on March 24, 2011 (2007: March 15, 2010) subject to the grantee's continued service with the Company. The Company also issued to certain directors, 20,724 (2007: 13,264) restricted shares of Class A ordinary shares as part of the directors' remuneration. Each of these restricted shares issued to certain directors contain similar restrictions to those issued to employees and these shares will vest on the earlier of the first anniversary of the shares' issuance or the Company's next annual general meeting, subject to the grantee's continued service with the Company.

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The Company recorded \$1.6 million of share-based compensation expense relating to restricted shares for the year ended December 31, 2008 (2007: \$0.6 million, 2006: \$0). As of December 31, 2008, there was \$0.9 million (2007: \$1.3 million) of unrecognized compensation costs related to non-vested restricted shares which are expected to be recognized over a weighted average period of 1.67 years (2007: 2.23 years). For the year ended December 31, 2008, the total fair value of restricted shares vested was \$0.2 million (2007: \$0, 2006: \$0).

The restricted share award activity during the year ended December 31, 2008 was as follows:

|                              | Number of<br>non-vested<br>restricted<br>shares | Weighted<br>average<br>grant date<br>fair value |
|------------------------------|---|---|
| Balance at December 31, 2007 | 121,424   | \$ 16.43  |
| Granted                      | 162,189   | 18.93   |
| Vested                       | (13,264)  | 19.00   |
| Forfeited                    | —   | —   |
| Balance at December 31, 2008 | 270,349   | \$ 17.80  |

## Employee and Director Stock Options

During the year ended December 31, 2008, the Company granted 80,000 (2007: 50,000) 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 2009, 2010 and 2011 (2007 options vest over three years). 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.

|                      | 2008     | 2007     | 2006             |
|----------------------|----------|----------|------------------|
| Risk free rate       | 3.99%    | 4.79%    | 4.36% –<br>5.14% |
| 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, 2008 related to employee and director stock options was \$1.4 million (2007: \$2.3 million, 2006: \$2.9 million). At December 31, 2008, the total compensation cost related to non-vested options not yet recognized was \$0.7 million (2007: \$1.4 million, 2006: \$3.2 million) to be recognized over a weighted average period of 1.0 year (2007: 1.09 years, 2006: 2.01 years) assuming the employees complete their service period for vesting of the options.

During the year ended December 31, 2008, 660 stock options were exercised which had a weighted average exercise price of \$13.85. 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, 2008 was \$6,067.



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Employee and director stock option activity during years ended December 31, 2008 and 2007 was as follows:

|                              | Number of<br>options | Weighted<br>average<br>exercise<br>price | Weighted<br>average<br>grant date<br>fair value |
|------------------------------|----------------------|--|---|
| Balance at December 31, 2006 | 1,131,000            | \$ 11.83                                 | \$ 6.01   |
| Granted                      | 50,000               | 19.60                                    | 10.18   |
| Exercised                    | —                    | —  | —   |
| Forfeited                    | (2,000)              | 12.05                                    | 6.17  |
| Expired                      | —                    | —  | —   |
| 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   |

At December 31, 2008, the weighted-average remaining contractual term for options outstanding was 7.25 years (2007: 8.09 years).

At December 31, 2008, 964,233 (2007: 553,000) stock options were exercisable. These options had a weighted-average exercise price of \$11.26 (2007: \$11.61) and a weighted-average remaining contractual term of 6.68 years (2007: 7.90 years).

The weighted average grant date fair value of options granted during the year ended December 31, 2008 was \$8.69 (2007: \$10.18, 2006: \$6.40). The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2008 was \$1.4 million and \$1.3 million, respectively (2007: \$10.2 million and \$5.1 million). During the year ended December 31, 2008, 411,233 (2007: 376,333, 2006: 176,667) options vested.

## 10. NET INVESTMENT INCOME (LOSS)

|  | 2008              | 2007      | 2006      |
|--|-------------------|-----------|-----------|
|  | (\$ in thousands) |           |           |
| Realized gains (losses) and change in unrealized gains and losses, net | \$ (118,667)      | \$ 28,051 | \$ 70,272 |
| Interest, dividend and other income                                    | 31,093            | 23,443    | 11,704    |
| Interest, dividend and other expenses                                  | (28,651)          | (9,219)   | (4,775)   |
| Investment advisor compensation  | (9,901)           | (14,633)  | (18,692)  |
| Net investment income (loss)   | \$ (126,126)      | \$ 27,642 | \$ 58,509 |

## 11. GENERAL AND ADMINISTRATIVE EXPENSES

|                                  | 2008              | 2007      | 2006     |
|----------------------------------|-------------------|-----------|----------|
|                                  | (\$ in thousands) |           |          |
| General expenses                 | \$ 10,756         | \$ 9,034  | \$ 6,199 |
| Share-based compensation expense | 3,000             | 2,884     | 2,864    |
|                                  | \$ 13,756         | \$ 11,918 | \$ 9,063 |



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12. TAXATION

Under current Cayman Islands law, no corporate entity, including the Company, is obligated to pay any 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 obligations, until February 1, 2025.

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, a performance fee equal to 20% of the net income of the Company's share of account managed by DME Advisors is allocated, subject to a loss carryforward provision, to DME Advisors' account. For the year ended December 31, 2008, included in net investment income (loss) (see note 10) is performance compensation of \$0 million (2007: \$6.9 million, 2006: \$14.6 million). Given the net investment loss for the year ended December 31, 2008, the performance fee for the subsequent years will be reduced to 10% until all the investment losses have been recouped and an additional amount equal to 150% of the investment loss is earned.

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, 2008 are management fees of \$9.9 million (2007: \$7.7 million, 2006: \$4.1 million). The management fees have been fully paid as of December 31, 2008.

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, 2008, there were no indemnification payments made by the Company.

Service Agreement

In February 2007, the Company 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 has an initial term of one year, and will continue for sequential one year periods until terminated by the Company or DME Advisors. Either party may terminate the agreement for any reason with 30 days prior written notice to the other party.

14. COMMITMENTS AND CONTINGENCIES

Letters of Credit

At December 31, 2008, the Company had a \$400 million letter of credit facility with Citibank N.A. This agreement terminates on October 11, 2009, 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.

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In addition, at December 31, 2008, the Company had a \$25 million letter of credit facility with Butterfield Bank (Cayman) Limited (“Butterfield Bank”). This facility is the result of a novation to Butterfield Bank of a letter of credit facility previously issued by UniCredit Bank Cayman Islands Ltd (formerly Bank Austria Cayman Islands Ltd).

As of December 31, 2008, \$167.3 million (2007: \$76.5 million) in letters of credit were issued under the above facilities. Under the letter of credit facilities, the Company provides collateral that may consist of equity securities and cash equivalents. At December 31, 2008, total investments and cash equivalents with a fair market value of \$220.2 million (December 31, 2007: \$148.9 million) have been pledged as security against the letters of credit issued. Each of the credit facilities requires that the Company comply with 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 agreements, Greenlight Re will be prohibited from paying dividends to the parent company. The Company was in compliance with all the covenants of each of its letter of credit facilities as of December 31, 2008 and 2007.

## Operating Lease

Effective September 1, 2005, the Company entered into a five-year non-cancelable operating lease agreement to rent office space. The total rent expense for the year ended December 31, 2008 was \$95,000 (2007: \$90,000, 2006: \$89,000).

On July 9, 2008, the Company entered into an additional lease agreement for new office space in the Cayman Islands. Under the terms of the lease agreement, the Company is committed to annual rent payments ranging from \$253,539 to \$311,821 starting from the earlier of December 1, 2008 or when the premises are occupied, and ending on June 30, 2018. The Company also 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.

## Specialist Service Agreement

Effective September 1, 2007, the Company entered into a service agreement with a specialist whereby the specialist service provider provides administration and support in developing and maintaining 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. Under the terms of the agreement, the Company has committed to quarterly payments to the service provider. If the agreement is terminated after two years, the Company is obligated to make minimum payments for another two years, as presented in the schedule below, to ensure any bound contracts are adequately run-off by the service provider.

## Private Equity

Periodically, the Company makes investments in private equity vehicles. As part of the Company's participation in such private equity securities, the Company may make funding commitments. As of December 31, 2008, the Company had commitments to invest an additional \$19.7 million in private equity securities.

## Schedule of Commitments and Contingencies

The following is a schedule of future minimum payments required under the above commitments:

|                             | 2009              | 2010   | 2011   | 2012   | 2013   | Thereafter | Total    |
|-----------------------------|-------------------|--------|--------|--------|--------|------------|----------|
|                             | (\$ in thousands) |        |        |        |        |            |          |
| Operating lease obligations | \$ 376            | \$ 345 | \$ 276 | \$ 276 | \$ 276 | \$ 1,243   | \$ 2,792 |



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|   |           |        |        |        |        |          |           |
|---|-----------|--------|--------|--------|--------|----------|-----------|
| Specialist service agreement            | 610       | 400    | 150    | —      | —      | —        | 1,160     |
| Private equity and limited partnerships | 19,695    | —      | —      | —      | —      | —        | 19,695    |
| (1)                                     | \$ 20,681 | \$ 745 | \$ 426 | \$ 276 | \$ 276 | \$ 1,243 | \$ 23,647 |

(1) Given the nature of these investments, the Company is unable to determine with any degree of accuracy when the remaining commitments will be called. Therefore, for purposes of the above table, the Company has assumed that all commitments will be paid within one year.

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## Litigation

In the normal course of business, the Company may become involved in various claims litigation and legal proceedings. As of December 31, 2008, 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, 2008, the three largest brokers accounted for \$50.0 million, \$27.5 million and \$25.6 million of gross premiums written, representing 30.8%, 16.9% 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, \$35.4 million and \$15.0 million of gross premiums written, representing 32.5%, 27.9% and 11.8%, respectively, of total gross premiums written. During the year ended December 31, 2006, the gross premiums written included \$58.1 million from one broker, representing 78.3% of total gross premiums written.

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

## Gross Premiums Written by Line of Business

|                        | Year Ended<br>December 31,<br>2008 |        | Year Ended<br>December 31,<br>2007 |        | Year Ended<br>December 31,<br>2006 |        |
|------------------------|------------------------------------|--------|------------------------------------|--------|------------------------------------|--------|
|                        | (\$ in thousands)                  |        |                                    |        |                                    |        |
| Property               |                                    |        |                                    |        |                                    |        |
| Commercial lines       | \$ 13,591                          | 8.4%   | \$ 17,532                          | 13.8%  | \$ 9,875                           | 13.3%  |
| Personal lines         | (4,071)(1)                         | (2.5)  | 41,291                             | 32.5   | 58,063                             | 78.3   |
| Casualty               |                                    |        |                                    |        |                                    |        |
| General liability      | 16,948                             | 10.4   | 17,597                             | 13.8   | 4,388                              | 5.9    |
| Marine                 | —                                  | —      | —                                  | —      | 1,825                              | 2.5    |
| Motor liability        | 72,578                             | 44.7   | 795                                | 0.6    | —                                  | —      |
| Professional liability | 2,150                              | 1.3    | 27,230                             | 21.4   | —                                  | —      |
| Specialty              |                                    |        |                                    |        |                                    |        |
| Health                 | 40,210                             | 24.7   | 16,489                             | 13.0   | —                                  | —      |
| Medical malpractice    | 4,641                              | 2.9    | 6,197                              | 4.9    | —                                  | —      |
| Workers compensation   | 16,348                             | 10.1   | —                                  | —      | —                                  | —      |
|                        | \$ 162,395                         | 100.0% | \$ 127,131                         | 100.0% | \$ 74,151                          | 100.0% |

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

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## Gross Premiums Written by Geographic Area of Risks Insured

|              | Year Ended<br>December 31,<br>2008 |        | Year Ended<br>December 31,<br>2007 |        | Year Ended<br>December 31,<br>2006 |        |
|--------------|------------------------------------|--------|------------------------------------|--------|------------------------------------|--------|
|              | (\$ in thousands)                  |        |                                    |        |                                    |        |
| USA          | \$ 142,604                         | 87.8%  | \$ 79,647                          | 62.6%  | \$ 64,409                          | 86.9%  |
| Worldwide(1) | 18,991                             | 11.7   | 44,722                             | 35.2   | 4,388                              | 5.9    |
| Europe       | —                                  | —      | 2,157                              | 1.7    | 3,521                              | 4.7    |
| Caribbean    | 800                                | 0.5    | 605                                | 0.5    | 500                                | 0.7    |
| Japan        | —                                  | —      | —                                  | —      | 1,333                              | 1.8    |
|              | 162,395                            | 100.0% | \$ 127,131                         | 100.0% | \$ 74,151                          | 100.0% |

(1) “Worldwide” risk comprises individual policies that insure risks on a worldwide basis.

## 16. SUBSIDIARY OPERATION

The Company’s consolidated financial statements include the accounts of the Subsidiary. Summarized consolidated financial information for the Subsidiary as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006, are presented below.

|  | December<br>31,<br>2008 | December<br>31,<br>2007 |
|--|-------------------------|-------------------------|
|  | (\$ in thousands)       |                         |
| Total assets                               | \$ 960,793              | \$ 1,094,620            |
| Total liabilities                          | 472,623                 | 488,563                 |
| Shareholders’ equity                       | 488,170                 | 606,057                 |
| Total liabilities and shareholders’ equity | \$ 960,793              | \$ 1,094,620            |

|                   | 2008              | 2007       | 2006      |
|-------------------|-------------------|------------|-----------|
|                   | (\$ in thousands) |            |           |
| Total revenues    | \$ (11,177)       | \$ 125,687 | \$ 85,132 |
| Total expenses    | 106,710           | 87,430     | 26,176    |
| Net income (loss) | \$ (117,887)      | \$ 38,257  | \$ 58,956 |

## 17. QUARTERLY FINANCIAL RESULTS (UNAUDITED)

|                        | 2008<br>Quarter ended |           |              |             |
|------------------------|-----------------------|-----------|--------------|-------------|
|                        | March 31              | June 30   | September 30 | December 31 |
|                        | (\$ in thousands)     |           |              |             |
| Revenues               |                       |           |              |             |
| Gross premiums written | \$ 70,766             | \$ 25,360 | \$ 37,684    | \$ 28,585   |
| Gross premiums ceded   | (9,272)               | (5,615)   | 1,169        | (2,678)     |
| Net premiums written   | 61,494                | 19,745    | 38,853       | 25,907      |

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|   |            |            |              |             |
|---|------------|------------|--------------|-------------|
| Changes in net unearned premium reserves                                | (34,002)   | 4,937      | (10,256)     | 8,271       |
| Net premiums earned   | 27,492     | 24,682     | 28,597       | 34,178      |
| Net investment income (loss)  | (5,762)    | 31,025     | (118,053)    | (33,336)    |
| Total revenues  | 21,730     | 55,707     | (89,456)     | 842         |
| Expenses  |            |            |              |             |
| Loss and loss adjustment expenses incurred, net                         | 12,124     | 9,337      | 14,777       | 19,247      |
| Acquisition costs, net  | 9,929      | 9,228      | 12,204       | 10,288      |
| General and administrative expenses                                     | 4,460      | 3,210      | 3,208        | 2,878       |
| Total expenses  | 26,513     | 21,775     | 30,189       | 32,413      |
| Net income (loss) before minority interest                              | (4,783)    | 33,932     | (119,645)    | (31,571)    |
| Minority interest in loss (income) of joint venture                     | 33         | (394)      | 1,212        | 312         |
| Net income (loss)   | \$ (4,750) | \$ 33,538  | \$ (118,433) | \$ (31,259) |
| Earnings (loss) per share   |            |            |              |             |
| Basic   | \$ (0.13)  | \$ 0.93    | (3.29)       | (0.87)      |
| Diluted   | (0.13)     | 0.92       | (3.29)       | (0.87)      |
| Weighted average number of ordinary shares used in the determination of |            |            |              |             |
| Basic   | 35,981,312 | 35,981,386 | 35,995,236   | 35,918,309  |
| Diluted   | 35,981,312 | 36,652,441 | 35,995,236   | 35,918,309  |

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|  | 2007              |            |              |             |
|--|-------------------|------------|--------------|-------------|
|  | March 31          | June 30    | September 30 | December 31 |
|  | Quarter ended     |            |              |             |
|  | (\$ in thousands) |            |              |             |
| <b>Revenues</b>  |                   |            |              |             |
| Gross premiums written   | \$ 38,064         | \$ 65,445  | \$ 19,766    | \$ 3,856    |
| Gross premiums ceded   | (13,743)          | (14,534)   | (209)        | 2,336       |
| Net premiums written   | 24,321            | 50,911     | 19,557       | 6,192       |
| Changes in net unearned premium reserves                                       | (3,400)           | (25,939)   | 11,155       | 15,250      |
| Net premiums earned  | 20,921            | 24,972     | 30,712       | 21,442      |
| Net investment income (loss)   | (14,381)          | 19,924     | (4,776)      | 26,875      |
| Total revenues   | 6,540             | 44,896     | 25,936       | 48,317      |
| <b>Expenses</b>  |                   |            |              |             |
| Loss and loss adjustment expenses incurred, net                                | 8,988             | 11,138     | 11,339       | 8,042       |
| Acquisition costs, net   | 7,712             | 9,515      | 13,458       | 8,254       |
| General and administrative expenses  | 2,980             | 2,926      | 3,232        | 2,780       |
| Total expenses   | 19,680            | 23,579     | 28,029       | 19,076      |
| Net income (loss)  | \$ (13,140)       | \$ 21,317  | \$ (2,093)   | \$ 29,241   |
| <b>Earnings (loss) per share</b>   |                   |            |              |             |
| Basic  | \$ (0.61)         | \$ 0.78    | \$ (0.06)    | \$ 0.81     |
| Diluted  | (0.61)            | 0.76       | (0.06)       | 0.80        |
| <b>Weighted average number of ordinary shares used in the determination of</b> |                   |            |              |             |
| Basic  | 21,558,915        | 27,472,993 | 35,981,312   | 35,981,312  |
| Diluted  | 21,558,915        | 27,980,421 | 35,981,312   | 36,639,928  |

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## SCHEDULE I

GREENLIGHT CAPITAL RE, LTD.  
SUMMARY OF INVESTMENTS — OTHER THAN INVESTMENTS IN RELATED PARTIES  
AS OF DECEMBER 31, 2008

(expressed in thousands of U.S. dollars)

| Type of Investment                              | Cost       | Fair Value<br>(\$ in thousands) |            | Balance<br>Sheet Value |
|---|------------|---------------------------------|------------|------------------------|
| Debt securities, trading, at fair value         | \$ 77,811  | \$ 70,214                       |            | \$ 70,214              |
| Equity securities, trading, at fair value       |            |                                 |            |                        |
| Common stocks, listed                           | 552,941    | 348,590                         |            | 348,590                |
| Exchange traded funds                           | 53,364     | 60,739                          |            | 60,739                 |
| Total equity securities, trading, at fair value | 606,305    | 409,329                         |            | 409,329                |
| Total investments, trading                      | \$ 684,116 | \$ 479,543                      |            | \$ 479,543             |
| Other investments, at fair value                |            |                                 |            |                        |
| Equities, unlisted                              |            | \$ 15,395                       | \$ 11,897  | \$ 11,897              |
| Call options                                    |            | 2,133                           | 2,526      | 2,526                  |
| Total other investments, at fair value          |            | \$ 17,528                       | \$ 14,423  | \$ 14,423              |
| Total investments in securities                 |            | \$ 701,644                      | \$ 493,966 | \$ 493,966             |

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## SCHEDULE II

GREENLIGHT CAPITAL RE, LTD.  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
CONDENSED BALANCE SHEETS — PARENT COMPANY ONLY

(expressed in thousands of U.S. dollars)

|  | December<br>31,<br>2008 | December<br>31,<br>2007 |
|--|-------------------------|-------------------------|
|  | (\$ in thousands)       |                         |
| Assets                                     |                         |                         |
| Cash and cash equivalents                  | \$ 37                   | \$ 25                   |
| Investment in subsidiaries                 | 488,170                 | 606,057                 |
| Total assets                               | \$ 488,207              | \$ 606,082              |
| Liabilities and shareholders' equity       |                         |                         |
| Liabilities                                |                         |                         |
| Due to subsidiaries                        | \$ 2,825                | \$ 500                  |
| Shareholders' equity                       |                         |                         |
| Share capital                              | 3,604                   | 3,610                   |
| Additional paid-in capital                 | 477,571                 | 476,861                 |
| Retained earnings                          | 4,207                   | 125,111                 |
| Total shareholders' equity                 | 485,382                 | 605,582                 |
| Total liabilities and shareholders' equity | \$ 488,207              | \$ 606,082              |

GREENLIGHT CAPITAL RE, LTD.  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
CONDENSED STATEMENTS OF INCOME — PARENT COMPANY ONLY

(expressed in thousands of U.S. dollars)

|  | Year ended December 31 |           |           |
|--|------------------------|-----------|-----------|
|  | 2008                   | 2007      | 2006      |
|  | (\$ in thousands)      |           |           |
| Revenue  |                        |           |           |
| Investment income  | \$ —                   | \$ 2      | \$ 1,016  |
| Expenses   |                        |           |           |
| General and administrative expenses                                    | 3,017                  | 2,934     | 2,973     |
| Net loss before equity in earnings (loss) of consolidated subsidiaries | (3,017)                | (2,932)   | (1,957)   |
| Equity in earnings (loss) of consolidated subsidiaries                 | (117,887)              | 38,257    | 58,956    |
| Consolidated net income (loss)   | \$ (120,904)           | \$ 35,325 | \$ 56,999 |





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## SCHEDULE II (continued)

GREENLIGHT CAPITAL RE, LTD.  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
CONDENSED STATEMENTS OF CASH FLOWS — PARENT COMPANY ONLY

(expressed in thousands of U.S. dollars)

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2008                    | 2007      | 2006      |
|  | (\$ in thousands)       |           |           |
| Cash provided by (used in)   |                         |           |           |
| Operating activities   |                         |           |           |
| Net income (loss)  | \$ (120,904)            | \$ 35,325 | \$ 56,999 |
| Adjustments to reconcile net income to cash provided by operating activities |                         |           |           |
| Equity in loss (earnings) of consolidated subsidiaries                       | 117,887                 | (38,257)  | (58,956)  |
| Stock options and stock awards expense                                       | 3,000                   | 2,884     | 2,864     |
| Due to subsidiaries  | 2,825                   | 500       | —         |
| Change in accounts payable and accrued expenses                              | —                       | —         | (59)      |
| Total operating activities   | 2,808                   | 452       | 848       |
| Investing activity   |                         |           |           |
| Contributed surplus to subsidiaries  | (500)                   | (255,656) | (21,972)  |
| Financing activities   |                         |           |           |
| Proceeds from share issue  | 17                      | 255,706   | 4,270     |
| Repurchase of Class A ordinary shares  | (2,334)                 | —         | —         |
| Short-swing sale profit from shareholder                                     | 12                      | —         | —         |
| Net proceeds from exercise of stock options                                  | 9                       | —         | —         |
| Options repurchased  | —                       | (500)     | —         |
| Collection of related party promissory note receivable                       | —                       | —         | 16,212    |
| Change in interest receivable on related party promissory note receivable    | —                       | —         | 479       |
| Total financing activities   | (2,296)                 | 255,206   | 20,961    |
| Net increase (decrease) in cash and cash equivalents                         | 12                      | 2         | (163)     |
| Cash and cash equivalents at beginning of the year                           | 25                      | 23        | 186       |
| Cash and cash equivalents at end of the year                                 | \$ 37                   | \$ 25     | \$ 23     |

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## SCHEDULE III

GREENLIGHT CAPITAL RE, LTD.  
 SUPPLEMENTARY INSURANCE INFORMATION  
 AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(expressed in thousands of U.S. dollars)

| Year and Segment    | Deferred acquisition costs | Reserves for losses and loss adjustment expenses – gross | Unearned premiums – gross | Net premiums earned | Net investment income (loss) | Net losses, and loss adjustment expenses | Amortization of deferred acquisition costs | Other operating expenses | Gross premiums written |
|---------------------|----------------------------|--|---------------------------|---------------------|------------------------------|--|--|--------------------------|------------------------|
| 2008                |                            |  |                           |                     |                              |  |  |                          |                        |
| Property & Casualty | \$ 17,629                  | \$ 81,425  | \$ 88,926                 | \$ 114,949          | \$ (126,126)                 | \$ 55,485                                | \$ 41,649                                  | \$ 13,756                | \$ 162,395             |
| 2007                |                            |  |                           |                     |                              |  |  |                          |                        |
| Property & Casualty | \$ 7,302                   | \$ 42,377  | \$ 59,298                 | \$ 98,047           | \$ 27,642                    | \$ 39,507                                | \$ 38,939                                  | \$ 11,918                | \$ 127,131             |
| 2006                |                            |  |                           |                     |                              |  |  |                          |                        |
| Property & Casualty | \$ 16,282                  | \$ 4,977   | \$ 47,546                 | \$ 26,605           | \$ 58,509                    | \$ 9,671                                 | \$ 10,415                                  | \$ 9,063                 | \$ 74,151              |

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## SCHEDULE IV

GREENLIGHT CAPITAL RE, LTD.  
 SUPPLEMENTARY REINSURANCE INFORMATION  
 AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(expressed in thousands of U.S. dollars)

| Year and Segment         | Direct<br>gross<br>premiums | Premiums<br>ceded to<br>other<br>companies | Premiums<br>assumed<br>from<br>other<br>companies | Net amount | Percentage<br>of<br>amount<br>assumed to<br>net |
|--------------------------|-----------------------------|--|---|------------|---|
| 2008 Property & Casualty | \$                          | —\$ 16,396                                 | \$ 162,395  | \$ 145,999 | 111%  |
| 2007 Property & Casualty | \$                          | —\$ 26,150                                 | \$ 127,131  | \$ 100,981 | 126%  |
| 2006 Property & Casualty | \$                          | —\$  | —\$ 74,151  | \$ 74,151  | 100%  |

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