

Greenlight Capital Re, Ltd.  
Form 424B4  
May 24, 2007  
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Filed Pursuant to Rule 424(b)(4)  
Registration File No.: 333-139993

PROSPECTUS

10,250,000 shares

Class A Ordinary Shares

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Greenlight Capital Re, Ltd., or Greenlight Re, is making an initial public offering of its Class A Ordinary Shares. No public market currently exists for the Class A Ordinary Shares. Greenlight Re is offering all of the Class A Ordinary Shares offered by this prospectus. In addition, simultaneously with and contingent upon the completion of this offering and certain other conditions, Greenlight Re, in a concurrent private placement, will sell and David Einhorn, Chairman of our Board of Directors, will purchase \$50.0 million of our Class B Ordinary Shares at a price per share equal to the initial public offering price.

Nasdaq has approved the Class A Ordinary Shares for listing, subject to notice of issuance, under the symbol "GLRE."

Investing in our Class A Ordinary Shares involves risks. See "Risk Factors" beginning on page 12 of this prospectus.

	Per Share	Total
Public offering price	\$ 19.00	\$ 194,750,000
Underwriting discounts and commissions	\$ 1.33	\$ 13,632,500
Proceeds to us before expenses	\$ 17.67	\$ 181,117,500

We have granted the underwriters a 30-day option to purchase up to an additional 1,537,500 Class A Ordinary Shares from us on the same terms and conditions as set forth above if the underwriters sell more than 10,250,000 Class A Ordinary Shares in the offering.

None of the Securities and Exchange Commission, state securities regulators, the Cayman Islands Monetary Authority nor any other governmental or regulatory body in the Cayman Islands has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is unlawful.

The underwriters expect to deliver the Class A Ordinary Shares to purchasers against payment on or about May 30, 2007.

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LEHMAN BROTHERS

UBS Investment Bank

CITI  
May 24, 2007

DOWLING & PARTNERS SECURITIES

FOX-PITT, KELTON

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You should rely only on the information contained in this prospectus. Neither we nor any underwriter or agent has authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. Neither we nor any underwriter or agent is making an offer to sell our Class A Ordinary Shares in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our Class A Ordinary Shares.

Statements contained in this prospectus as to the contents of any contract or other document are not complete, and in each instance we refer you to the copy of the contract or document filed as an exhibit to the registration statement of which the prospectus constitutes a part, each of those statements being qualified in all respects by this reference.

Until June 18, 2007 (25 days after the date of this prospectus), all dealers that buy, sell or trade our Class A Ordinary Shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

For investors outside of the United States: Neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

No invitation is being made to the public in the Cayman Islands to subscribe for the Class A Ordinary Shares.

Greenlight Re is our trademark. Other trademarks and trade names appearing in this prospectus are the property of their respective holders.

Greenlight Capital Re, Ltd. is incorporated under the laws of the Cayman Islands as an exempted company limited by shares. We were formed in July 2004. Our subsidiary, Greenlight Reinsurance,

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Ltd., is incorporated under the laws of the Cayman Islands as an exempted company limited by shares and has been granted an unrestricted Class B Insurers License from the Cayman Islands Monetary Authority, or CIMA, under the terms of the Insurance Law (as revised) of the Cayman Islands, or the Law. Our principal executive offices are located at 802 West Bay Road, The Grand Pavilion, Grand Cayman, KY1-1205, Cayman Islands. Our telephone number is (345) 745-4573. Our website address is [www.greenlightre.ky](http://www.greenlightre.ky). The information contained in, or accessible through, our website is not part of this prospectus.

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### SUMMARY

This summary highlights certain information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our Class A Ordinary Shares. You should carefully read the entire prospectus, including "Risk Factors" and our financial statements and related notes, before you decide whether to invest in our Class A Ordinary Shares. References to "we," "our," "our company," "us," "Greenlight Re," or "the Company" refer to Greenlight Capital Re, Ltd. and our wholly-owned subsidiary, Greenlight Reinsurance, Ltd., unless the context dictates otherwise. References to our "Ordinary Shares" refers collectively to our Class A Ordinary Shares and Class B Ordinary Shares. References to our "Articles" refer to the third amended and restated memorandum and articles of association of Greenlight Re. Investing in our Class A Ordinary Shares involves risks. See "Risk Factors." For your

convenience, we have included a glossary beginning on page G-1 of selected reinsurance terms. All dollar amounts referred to in this prospectus are in U.S. dollars unless otherwise indicated. Any discrepancies in the tables included herein between the amounts listed and the totals thereof are due to rounding.

Greenlight Capital Re, Ltd.

## Company Overview

We are a Cayman Islands-based specialty property and casualty reinsurer with a reinsurance and investment strategy that we believe differentiates us from our competitors. Our goal is to build long-term shareholder value by selectively offering customized reinsurance solutions, in markets where capacity and alternatives are limited, that we believe will provide favorable long-term returns on equity. We 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.

Our reinsurance strategy is to build a portfolio of select frequency and severity contracts with a focus on contracts customized to meet client needs that are not being met in the traditional reinsurance marketplace. Frequency contracts contain a potentially large number of small losses from multiple events and severity contracts contain the potential for significant losses from one event. We have established a senior team of generalist underwriters and actuaries to operate our reinsurance business. We believe that our generalist underwriting capabilities, together with our customized underwriting approach:

- allow us to deploy our capital opportunistically in a variety of property and casualty lines of business;
- enable us to be the lead underwriter on a majority of the premium we write;
- allow us to better understand our risks and exposures; and
- allow us to structure many of our contracts in such a way that our clients participate in the loss experience of the underlying risks, which should align their interests with ours.

In addition to underwriting customized contracts, we may also, from time to time, participate in traditional reinsurance programs that we believe will provide us with favorable returns on equity. We intend to underwrite contracts only where we believe we can model, analyze and monitor our risks effectively. Our underwriters are responsible for contracts from origination until final disposition, including underwriting, pricing, servicing, monitoring and claims processing. We anticipate that this integrated approach will translate to superior contract management, better client service and superior economic returns over the long term.

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

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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 third-party investment advisor that is compensated with both an annual fee and upon the performance of our portfolio. As of March 31, 2007, 96.4% of our investments in securities was invested in publicly-traded equity securities primarily traded on exchanges in North America and Western Europe. DME Advisors, LP, or DME Advisors, our investment advisor, 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, 2009, 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, it is not otherwise restricted with respect to the nature or timing of making investments for our account. The returns on our investment portfolio for the years ended December 31, 2005 and 2006 and the three months ended March 31, 2007 were 14.2%, 24.4% and (4.2)%, respectively. We note that past performance is not necessarily indicative of future results.

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 based 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 began underwriting business in April 2006, once our senior underwriting team and infrastructure were in place. In August 2006, we received an A- (Excellent) financial strength rating with a stable outlook from A.M. Best & Co. Inc., or A.M. Best, which is the fourth highest of 15 ratings A.M. Best issues. This rating reflects the rating agency'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.

For the year ended December 31, 2006, we generated earned premiums of \$26.6 million, net investment income of \$58.5 million, net income of \$57.0 million and incurred losses of \$9.7 million, of which \$4.7 million were paid. As of December 31, 2006, we had total shareholders' equity of \$312.2 million. For the three months ended March 31, 2007, we generated earned premiums of \$20.9 million, net investment loss of \$14.4 million, net loss of \$13.1 million and incurred losses of \$9.0 million, of which none were yet paid. As of March 31, 2007, we had total shareholders' equity of \$299.7 million.

Our combined ratio, which is the sum of our composite ratio and our internal expense ratio, for the three-month period ended March 31, 2007 and the year ended December 31, 2006 was 94.1% and 109.6%, respectively. The composite ratio is the ratio of underwriting losses incurred, loss adjustment expenses and acquisition costs, excluding general and administrative expenses, to premiums earned. The internal expense ratio is the ratio of all general and administrative expenses to premiums earned. For example, a combined ratio of 109.6% signifies a loss of \$0.096 per dollar of premiums earned. The reported combined ratio of 109.6% is high due to general and administrative expenses incurred in connection with the start-up of our reinsurance operations. We expect our internal expense ratio to decrease significantly as we continue to expand our underwriting activities.

Given our limited operating history, the results set forth in the preceding two paragraphs should not be relied upon as a basis for evaluating the potential success of our business strategy.

#### How We Are Different from Traditional Reinsurers

Our operations are designed to capitalize on inefficiencies that we perceive 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 rather than pursuing and participating in broadly-available traditional opportunities;
- we aim to build a reinsurance portfolio 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 premium we underwrite rather than focusing on taking a minority participation;
- we employ experienced generalist underwriters rather than underwriters who focus on specific 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;
- we compensate our management with a bonus structure largely dependent on our underwriting results over a multi-year period rather than annual metrics;
- we employ a value-oriented investment strategy and invest in long and short positions of equity and corporate debt securities rather than investing predominantly in fixed-income securities; and
- we have a long-term exclusive investment advisory agreement that compensates the advisor with both an annual fee and a performance compensation fee rather than a flat fee.

Because our underwriting and investment strategies differ from other participants in the property and casualty reinsurance market, you may not be able to directly compare our business or prospects with those of other property and casualty reinsurers. Our results from financial accounting period to period may vary significantly and may not be as predictable as many of our competitors’. However, we believe that our operational differences, particularly our focus on writing select, customized contracts, which we believe will allow us to better manage our underwriting risks, and our value-oriented investment strategy, which has the potential to generate higher rates of return than traditional fixed-income strategies, will enable us to generate, over the long term, returns on equity superior to those of traditional reinsurers.

#### Market Trends and Opportunities

Extended periods of competitive pricing, increases in reserves, rating downgrades, higher than expected losses and rating agency changes in capital requirements for certain lines of business historically have caused capacity shortages in certain product lines in the property and casualty industry. These capacity shortages have created considerable cyclical increases in pricing and changes in terms and conditions that are significantly more favorable for reinsurers as clients may not be able to identify or locate reinsurers that are willing or able to reinsure their underwriting risks.

During the year ended December 31, 2006, we wrote \$74.2 million of premiums from nine contracts that ranged in size from \$0.5 million to \$58.1 million. During the three-month period ended March 31, 2007, we wrote \$38.1 million of gross premiums and wrote seven new contracts that ranged in size from \$0.1 million to \$14.2 million of gross premiums. Although a majority of these contracts have a one-year term, we expect to pay losses on many of these contracts for a number of years. These reinsurance contracts provide coverage of casualty risks that cover a single event but may affect multiple casualty policies, or casualty clash risks, and homeowners’, property catastrophe and marine risks. We anticipate that we will see attractive opportunities in casualty clash, homeowners’, medical malpractice, workers’ compensation, property catastrophe and marine lines in 2007. We believe that these lines of business will present us with opportunities for the following reasons:

- a limited number of reinsurers underwrite casualty clash reinsurance;

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- in certain states, including Florida, a number of insurers are reducing their homeowners' writings, creating opportunity for the remaining insurers that, in turn, will require more reinsurance to mitigate their overall exposure;
- legislation in certain states, including tort reform and workers' compensation regulation, has resulted in attractive opportunities for medical malpractice and workers' compensation reinsurance; and
- there continues to be significant demand for property catastrophe and marine reinsurance.

Of the \$38.1 million in gross premiums written in the three-month period ended March 31, 2007 and the \$74.2 million in gross premiums written in 2006, 86.3% and 78.3% was frequency business and 13.7% and 21.7% was severity business, respectively. Our reinsurance coverage of homeowners', health, property catastrophe, medical malpractice and casualty clash accounted for 39.4%, 37.3%, 12.4%, 9.6% and 1.3%, respectively, of our premiums written in the first quarter of 2007. Our reinsurance coverage of homeowners', property catastrophe, casualty clash and marine risks accounted for 78.3%, 13.3%, 5.9% and 2.5%, respectively, of our premiums written in 2006. Approximately 86.6% of our premiums written as of March 31, 2007 were written for risks located in the United States. Approximately 39.4% of the premiums written were written for homeowners' coverage in Florida, which excludes catastrophe events that cause industry insured losses of \$25 million or more.

We may also underwrite other lines of business, such as commercial auto and general liability, although we do not believe that we will see many attractive opportunities in these lines for the foreseeable future as there are many reinsurers currently competing for this type of business.

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

## Our Competitive Strengths

We believe we distinguish ourselves as follows:

- **Focus on Customized Products.** We focus on offering customized reinsurance solutions at times and in markets where capacity and alternatives are limited. In particular, we focus on business that is difficult for brokers to place, that is not already sold by brokers or that requires an innovative underwriting approach.
- **Focus on Economic Results.** Our goal is to achieve attractive economic returns on every reinsurance contract we underwrite by focusing on our expected return on equity over the life of the contract, which may span many years. We do not measure our economic success with respect to a contract in any given accounting period but rather after the final loss payments on the contract are made, which could be a number of years beyond the term of the contract.
- **Non-traditional Investment Approach.** We employ a non-traditional investment approach that has the potential to generate higher rates of return than traditional fixed-income strategies and take long positions in perceived undervalued securities and short positions in perceived overvalued securities in an effort to maximize investment returns while minimizing the risk of capital loss in both up and down markets. The returns on our investment portfolio for the years ended December 31, 2005 and 2006 and the three-month period ended March 31, 2007 were 14.2% 24.4% and (4.2)%, respectively.
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Alignment of Management and Shareholder Interests. Our management incentive compensation plans are designed to align management and employee interests with those of our shareholders over the long term. Most of our cash bonus plan payments each year will be deferred for a multi-year period to reflect actual underwriting results as they develop.

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- Experienced Management and Underwriting Team with Well-Established Market Relationships. Our management team has a broad range of relevant skills, experiences and relationships in the reinsurance industry.
- Financial Strength. We currently have no debt in our capital structure and have an A– (Excellent) financial strength rating with a stable outlook from A.M. Best, which is the fourth highest of 15 ratings A.M. Best issues. This rating reflects the rating agency’s opinion of our financial strength, operating performance and ability to meet obligations and is not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our Class A Ordinary Shares.

### Risks That Could Impact Our Business and Competitive Strengths

We face the following risks that could impact our business and competitive strengths:

- Our Operating Results will Fluctuate from Period to Period. Our operating results will fluctuate from financial accounting period to period and our short-term results of operations may not be indicative of our long-term prospects.
- We Have a Limited Operating History and Are Different from Traditional Reinsurers. We have a limited operating history and established competitors with greater resources may make it difficult for us to effectively market our products or offer our products at a profit. Accordingly, our future performance is difficult to predict. In addition, because our underwriting and investment strategies differ from other participants in the property and casualty reinsurance market, you may not be able to compare our business or prospects with those of traditional property and casualty reinsurers.
- There is Uncertainty With Respect to the Establishment of Reserves. As a relatively new reinsurer focused on sizeable transactions and on being the lead underwriter on a majority of premium, our estimation of reserves may be less reliable than the reserve estimations of reinsurers with a greater volume of business of smaller transactions and an established loss history.
- Our Non-traditional Investment Approach May Subject Us to Greater Risks than Traditional Fixed-Income Strategies. DME Advisors’ value-oriented investment strategy is more volatile and presents greater risks than 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. Our investment portfolio is likely to be more volatile than traditional fixed-income portfolios that produce stable streams of income and the risk of loss is greater when compared with other reinsurance companies.
- Loss of Key Personnel Could Delay or Prevent Us from Implementing Our Strategy. 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.

- 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 or DME Advisors' principals could significantly affect our business.

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- Our A.M. Best Rating Potentially is Subject to Downgrade. Our rating is subject to periodic review by A.M. Best and may be revised downward or revoked at its sole discretion. If A.M. Best downgrades or withdraws our A- (Excellent) 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.

## Our Strategy

We seek to maximize sustainable long-term growth in book value by pursuing the following strategies:

- Selectively Underwrite Reinsurance Risks. We employ a strict underwriting discipline in an attempt to identify and select reinsurance opportunities with favorable returns on equity before we commit our capital. We intend to develop a portfolio of select, customized frequency and severity contracts of property and casualty lines of business that we believe are underserved or are capacity constrained and where each transaction is important to both our client and us. Our goal is to produce superior long-term growth in book value per share, rather than pursuing short-term premium production targets.
- Operate as a Lead Underwriter on the Majority of the Premium We Underwrite. We have a strong preference to be the lead underwriter of a majority of the premium we underwrite, which we believe allows us to influence the pricing, terms and conditions of the business we write and, accordingly, better enables us to meet or exceed our targeted return on equity.
- Manage Capital Prudently. We intend to manage our capital prudently with respect to our underwriting and capital financing activities. Our underwriting activities are centralized, subject to written underwriting guidelines and regularly reviewed by the Underwriting Committee of our Board of Directors. Additionally, DME Advisors' investment activities on our behalf are subject to our investment guidelines and regularly reviewed by our Board of Directors. We believe our strategy to monitor and manage our capital will enable us to maintain our A- (Excellent) rating from A.M. Best.
- Employ a Differentiated Investment Approach. We manage our investment portfolio pursuant to a value-oriented philosophy and invest primarily in long and short positions in publicly-traded securities that we believe will achieve higher rates of return over the long term than traditional fixed-income investment strategies that are employed by most reinsurers and designed to produce stable streams of income.
- Maintain a Centralized Operating Structure. We believe that our centralized management structure allows us to identify and quickly respond to market opportunities and should allow us to capitalize on attractive opportunities more efficiently than our competitors and provide superior client service.

## Additional Risks Relating to Our Business and This Offering

In addition to the risks described in “—Risks That Could Impact Our Business and Competitive Strengths,” the maintenance of our competitive strengths, the implementation of our business strategy and our future results of operations and financial condition are subject to a number of risks and uncertainties. We discuss in detail factors that could adversely affect our actual results and performance, as well as the successful implementation of our business strategy, under the heading “Risk Factors” beginning on page 12. Before you invest in our Class A Ordinary Shares, you should carefully consider all of the information in this prospectus, including matters set forth under the heading “Risk Factors” including:

- Cyclical nature of the Reinsurance Market May Affect the Industry’s and Our Profitability. The property and casualty reinsurance industry is cyclical and subject to unpredictable

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developments which may affect the industry’s and our profitability. These include trends of courts granting increasingly larger awards for certain damages, natural disasters, fluctuations in interest rates, changes in laws, changes in the investment environment that affect market prices of investments, inflationary pressures and other events that affect the size of premiums or losses companies and primary insurers experience.

- We Are Dependent upon Letter of Credit Facilities. Certain of our clients require us to obtain letters of credit or provide other collateral through funds withheld or trust arrangements as the jurisdictions in which they are incorporated will not permit them to take credit on their statutory financial statements without us posting a letter of credit or providing other collateral. The inability to renew, maintain or increase our letter of credit facility will significantly limit the amount of reinsurance we can write and may require us to modify our investment strategy. If we fail to renew, maintain or increase our letter of credit facilities, our ability to implement our business strategy could be significantly and negatively affected. We have established a \$200.0 million letter of credit facility. As of March 31, 2007, \$65.6 million in letters of credit were issued.
- Exposure to Natural and Man-made Disasters May Expose Us to Significant Claims. 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 and man-made disasters. Claims from catastrophic events could cause substantial volatility in our financial results and could have a material adverse effect on our financial condition and results of operations. As of March 31, 2007, our property catastrophe and casualty clash contracts accounted for 12.4% and 1.3% of our premiums written, respectively.
- We May Not Qualify for an Exemption from the Investment Company Act. We rely upon an exception under the Investment Company Act for a company organized and regulated as a foreign insurance company primarily and predominantly engaged in the reinsurance business. If this exception were deemed inapplicable, we would have to register under the Investment Company Act as an investment company, and as a result we likely would not be permitted to operate our business in the manner in which we currently operate.
- We May be Deemed to be a Passive Foreign Investment Company. Significant adverse tax consequences could result to our shareholders if either Greenlight Re or Greenlight Reinsurance, Ltd. is characterized as a passive foreign investment company, or PFIC. The determination is factual in nature and conducted annually, and we cannot assure you that we will not currently or in the future be characterized as a PFIC. We believe that we were a PFIC in

2006, 2005 and 2004. We do not believe, although we cannot assure you, that we will be a PFIC for 2007 or any future taxable year.

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The Offering

Issuer	Greenlight Capital Re, Ltd.
Class A Ordinary Shares offered	10,250,000 shares
Underwriters' option to purchase additional shares	1,537,500 shares
Number of Class A Ordinary Shares to be outstanding after this offering	28,291,023 Class A Ordinary Shares
Class B Ordinary Shares to be sold in the concurrent private placement	2,631,579 Class B Ordinary Shares
Listing	Nasdaq Global Select Market
Trading symbol	GLRE
Use of proceeds	We estimate net proceeds to us from this offering to be approximately \$179.1 million, after deducting the underwriting discounts and commissions and estimated offering expenses. Additionally, we will receive \$50 million of proceeds from the sale of Class B Ordinary Shares in the concurrent private placement at a price per share equal to the initial public offering price. We presently intend to contribute substantially all of the net proceeds of this offering and the concurrent private placement to Greenlight Reinsurance, Ltd. to increase the underwriting capacity of its reinsurance operations. See "Use of Proceeds."
Dividend policy	We currently do not expect to pay any dividends on our Ordinary Shares. See "Dividend Policy."
Voting rights	Except as described herein with regard to adjustments of the aggregate votes conferred by the Ordinary Shares of shareholders holding 9.9% or more of the total voting power of our Ordinary Shares, holders of our Class A Ordinary Shares have one vote for each Class A Ordinary Share held by them and are entitled to vote on a noncumulative basis at all meetings of shareholders. Holders of our Class B Ordinary Shares are entitled to ten votes for each Class B Ordinary Share held by them, subject to the adjustments described above and a limitation on the maximum voting power of the Class B Ordinary Shares of 9.5%. See "Description of Share Capital—Ordinary Shares—Voting General" and "Risk Factors—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.’’

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Except as otherwise indicated, all information contained in this prospectus:

- assumes the underwriters do not exercise their option to purchase additional Class A Ordinary Shares;
- excludes 1,131,000 of our Class A Ordinary Shares issuable upon the exercise of options outstanding as of May 1, 2007, at a weighted average exercise price of \$11.85 per share issued under our 2004 stock incentive plan, as amended, or stock incentive plan; and
- excludes 400,000 of our Class A Ordinary Shares issuable upon the exercise of share purchase options granted to First International Securities Ltd., or First International, a service provider, outstanding as of May 1, 2007, at an exercise price of \$10.00 per share.

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### Summary Financial Data

The following table sets forth our summary financial data for the three-month period ended March 31, 2007 and 2006 and the fiscal years ended December 31, 2006 and 2005 and the period from inception on July 13, 2004 to December 31, 2004. We were capitalized in August 2004 and commenced underwriting operations in April 2006. We derived the financial data for the years ended December 31, 2006 and 2005 and the period from July 13, 2004 to December 31, 2004 from our audited financial statements included elsewhere in this prospectus, which have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The financial data for the three-month periods ended March 31, 2007 and 2006 is derived from our unaudited financial statements included elsewhere in this prospectus. These historical results are not necessarily indicative of future results and the interim results are not necessarily indicative of our full-year performance. You should read the following summary financial data together with our audited financial statements and related notes included elsewhere in this prospectus and the information under ‘‘Selected Consolidated Financial Data’’ and ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations.’’

	Three Months Ended March 31,		Year Ended December 31,		Period from	
	2007	2006	2006	2005	July 13, 2004	to
	(\$ in thousands, except share, per share data and ratios)					
Summary Statement of Income Data:						December 31,
						2004
Net premiums written	\$ 24,321	\$ —	\$ 74,151	\$ —	\$ —	—
Net premiums earned	20,921	—	26,605	—	—	—

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Net investment (loss) income	(14,381)	17,196	58,509	27,934	9,636
Interest income on related party promissory note receivable	—	289	1,034	1,323	516
Total revenues	6,540	17,485	86,148	29,257	10,152
Loss and loss adjustment expenses incurred	8,988	—	9,671	—	—
Acquisition costs	7,712	—	10,415	—	—
General and administrative expenses	2,980	2,015	9,063	2,992	3,377
Total expenses	19,680	2,015	29,149	2,992	3,377
Net (loss) income	\$ (13,140)	15,470	\$ 56,999	\$ 26,265	\$ 6,775
(Loss) Earnings Per Share Data <sup>(1)</sup> :					
Basic	\$ (0.61)	\$ 0.73	\$ 2.67	\$ 1.24	\$ 0.32
Diluted	(0.61)	0.73	2.66	1.24	0.32
Weighted average number of Ordinary Shares					
Basic	21,558,915	21,227,222	21,366,140	21,226,868	21,225,000
Diluted	21,558,915	21,302,904	21,457,443	21,265,801	21,234,350
Selected Ratios (based on U.S. GAAP Statement of Income data):					
Loss ratio <sup>(2)</sup>	43.0%	—	36.4%	—	—
Acquisition cost ratio <sup>(3)</sup>	36.9%	—	39.1%	—	—
Internal expense ratio <sup>(4)</sup>	14.2%	—	34.1%	—	—
Combined ratio <sup>(5)</sup>	94.1%	—	109.6%	—	—

(1) Basic earnings per share is calculated by dividing net (loss) income by the weighted average number of shares outstanding for the period. 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 period.

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

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

(4) The internal expense ratio is calculated by dividing the 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.

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	As of December 31,		
	As of March 31, 2007	2006	2005
	(\$ in thousands, except share and per share data)		
Summary Balance Sheet Data:			
Fixed maturities, trading at fair value	\$ 770	\$ —	\$ 238
Equity investments, trading at fair value	250,337	238,799	216,702
Other investments, at estimated fair value	8,655	4,723	2,271

Total investments in securities	259,762	243,522	219,211
Cash and cash equivalents	54,039	82,704	7,218
Restricted cash and cash equivalents	191,927	154,720	99,719
Loss and loss adjustment expense recoverable	2,753	—	—
Unearned premiums ceded	10,306	—	—
Total assets	563,577	518,608	327,935
Loss and loss adjustment expense reserves	16,717	4,977	—
Unearned premium reserves	61,262	47,546	—
Total liabilities	263,849	206,441	96,113
Total shareholders' equity	299,728	312,167	231,822
Adjusted book value <sup>(1)</sup>	\$ 299,728	\$ 312,167	\$ 248,034
Ordinary shares outstanding:			
Basic	21,664,393	21,557,228	21,231,666
Diluted	23,195,393	23,094,900	22,175,000
Per Share Data:			
Basic adjusted book value per share <sup>(2)</sup>	\$ 13.84	\$ 14.48	\$ 11.68
Diluted adjusted book value per share <sup>(3)</sup>	13.67	14.27	11.63

<sup>(1)</sup> Adjusted book value equals total shareholders' equity plus the aggregate principal outstanding on a promissory note from Greenlight Capital Investors, LLC, or GCI, issued in partial payment for 5,050,000 Class B Ordinary Shares, pursuant to the Securities Purchase Agreement dated August 11, 2004 between us and GCI. GCI repaid the outstanding principal amount of the promissory note on December 6, 2006.

<sup>(2)</sup> Basic adjusted book value per share is calculated by dividing adjusted book value by the number of shares issued and outstanding at the end of the period.

<sup>(3)</sup> 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 number of shares and share equivalents outstanding at the end of the period.

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### RISK FACTORS

Investing in our Class A Ordinary Shares involves significant risks, including the potential loss of all or part of your investment. These risks could materially affect our business, financial condition and results of operations and cause a decline in the market price of our Class A Ordinary Shares. You should carefully consider all of the risks described in this prospectus, in addition to the other information contained in this prospectus, before you make an investment in our Class A Ordinary Shares.

#### 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 or a potential investment in our Class A Ordinary Shares.

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 prospective investors evaluate our performance or an investment in our Class A Ordinary Shares. In addition, in light of our limited operating history, our historical financial statements are not necessarily meaningful for evaluating an investment in our Class A Ordinary Shares. 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.

In general, reinsurance and insurance companies in their initial stages of development present substantial business and financial risks and may suffer significant losses. They must develop business relationships, establish operating procedures, hire staff, install information technology systems, implement management processes and complete other tasks appropriate for the conduct of their intended business activities. In particular, our ability to implement our strategy to penetrate the reinsurance market depends on, among other things:

- our ability to attract clients;
- our ability to attract and retain personnel with underwriting, actuarial and accounting and finance expertise;
- our ability to maintain at least an A- (Excellent) rating from A.M. Best or a similar financial strength rating from one or more other ratings agencies;

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- our ability to evaluate the risks we assume under reinsurance contracts that we write;
- the risk of being deemed a passive foreign investment company or an investment company if we are unable to implement our business plan and are deemed to not be in the active conduct of an insurance business or to not be predominantly engaged in an insurance business. See “ – We are subject to the risk of possibly becoming an investment company under U.S. federal securities law” and “Certain U.S. Tax Considerations – Passive Foreign Investment Companies.”

We cannot assure you that there will be sufficient demand for the reinsurance products we plan to write to support our planned level of operations, or that we will accomplish the tasks necessary to implement our business strategy. In

addition, the business we have written to date is still not mature and may be subject to greater losses than we have anticipated. From April 2006, when we commenced our underwriting operations, through March 31, 2007, we have paid an aggregate of \$4.7 million of losses.

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

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

- premium charges;
- the general reputation and perceived financial strength of the reinsurer;
- relationships with reinsurance brokers;
- terms and conditions of products offered;
- ratings assigned by independent rating agencies;
- speed of claims payment and reputation; and
- the experience and reputation of the members of our underwriting team in the particular lines of reinsurance we seek to underwrite.

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

Our competitors include ACE Limited, General Re Corporation, Hannover Re Group, Munich Reinsurance Company, PartnerRe Ltd., Swiss Reinsurance Company, Transatlantic Reinsurance Company and XL Capital Ltd., 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 from time to time.

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 “ – We are subject to the risk of possibly becoming an investment company under U.S. federal securities law” and “Certain U.S. Tax Considerations – Passive Foreign Investment Companies.”

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 premium 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 exceed our loss reserves, our financial condition may be significantly and negatively affected. As of March 31, 2007, our loss reserves totaled \$16.7 million from seven of our 16 contracts. As of March 31, 2007, we had not established reserves for our other nine contracts as these contracts relate to natural catastrophe exposed business for which there was no event that was estimated to impact any of these contracts and we had not received reports from any of our clients of loss payments or case reserves.

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 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.

Our reinsurance contracts bound in 2006 provide coverage of casualty clash, homeowners', property catastrophe and marine risks. We anticipate that we will see attractive opportunities in selected health, casualty clash, homeowners', medical malpractice, workers' compensation, property catastrophe and marine lines in 2007. We believe that these lines of business will present us with opportunities for the following reasons:

- a limited number of reinsurers underwrite casualty clash reinsurance;
- in certain states, a number of insurers are reducing their homeowners' writings and creating opportunity for the remaining insurers that will require more reinsurance;
- legislation in certain states, including tort reform and workers' compensation regulation, has resulted in attractive opportunities for medical malpractice and workers' compensation reinsurance; and
- there is significant demand for property and catastrophe and marine reinsurance.

We also may offer other lines of business, such as commercial auto and general liability, although we do not believe that we will see many attractive opportunities in these lines as there are many reinsurers currently competing for this type of business.

Unpredictable developments, including courts granting increasingly larger awards for certain damages, natural disasters (such as catastrophic hurricanes, windstorms, tornados, earthquakes and

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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 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 initial rating;
- if unfavorable financial or market trends impact us;
- if our losses 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.

While none of our reinsurance contracts written on or before March 31, 2007 provide the client with the right to terminate the agreement or require us to transfer premiums on a funds withheld basis if our A- (Excellent) A.M. Best rating is downgraded, we anticipate that some of our future contracts will contain such termination provisions.

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

Our future success depends to a significant extent on the efforts of our senior management and other key personnel to implement our business strategy. We believe there are only a limited number of available, qualified executives with substantial experience in our industry. In addition, we will need to add personnel, 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.

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

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

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

As of March 31, 2007, we had a letter of credit facility, valid until October 11, 2007, from Citibank, N.A. in a maximum amount of \$200 million of which \$65.6 million had been issued. Citibank, N.A. has accepted 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. The time that we have to cure a collateral shortfall varies depending on the severity of the shortfall. The time frame in which we must cure a shortfall varies from two hours to five days, depending on the applicable formula, as laid out in the hypothecation agreement of the letter of credit. Additionally, 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.

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.

A substantial portion 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 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. Furthermore, our raising additional capital could dilute your ownership interest in our company and may cause the market price of the Class A Ordinary Shares to decline.

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;

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- satisfy letters of credit or guarantee bond requirements that may be imposed by our clients or by regulators;
- meet applicable statutory jurisdiction requirements;
- meet rating agency capital requirements; or
- respond to competitive pressures.

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

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

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

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

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

In some of our proportional reinsurance business, in which we assume an agreed percentage of each underlying insurance contract being reinsured, or quota share contracts, we do not expect to separately evaluate each of the original individual risks assumed under these reinsurance contracts. Therefore, we will be largely dependent on the original underwriting decisions made by ceding companies. We will be subject to the risk that the clients may not have adequately evaluated the insured risks and that the premiums ceded may not adequately compensate us for the risks we assume. We also do not expect to separately evaluate each of the individual claims made on the underlying insurance contracts under quota-share. Therefore, we will be dependent on the original claims decisions made by our clients. As of March 31, 2007, we have entered into one quota share contract. Our aggregate maximum possible loss under this contract is equal to 127.5% of earned premiums, or approximately \$8.4 million as of March 31, 2007. We are subject to the risk that the client may pay invalid claims, which could result in reinsurance losses for us.

We could face unanticipated losses from war, terrorism, and political unrest, 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.

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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.

As of March 31, 2007, we had purchased \$13.7 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 reinsurer of reinsurance 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 retrocession 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 retrocession 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 assets 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.

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 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.

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

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

Under Delaware law, interested party transactions are voidable.

## Risks Relating to Insurance and Other Regulations

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

We are licensed as a reinsurer only in the Cayman Islands and do not plan to be licensed in any other jurisdiction. 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 PFIC or an investment company under the Investment Company Act of 1940. Similarly, if CIMA suspended or revoked our license we could lose our exception under the Investment Company Act of 1940, as amended, or the Investment Company Act. See “–We are subject to the risk of possibly becoming an investment company under U.S. federal securities law.”

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 exception under the Investment Company Act for a company 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 exception to the Investment Company Act. For example, there is no standard for the amount of premiums that need be written relative to the level of a company's capital in order to qualify for the exception. If this exception 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

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permitted to operate their business in the manner in which we operate our business, nor are registered investment companies permitted to have many of the relationships that we have with our affiliated companies. Accordingly, we likely would not be permitted to engage DME Advisors as our investment advisor, unless we obtained board and shareholder approvals under the Investment Company Act. If DME Advisors were not our investment advisor, DME Advisors would liquidate our investment portfolio and we would seek to identify and retain another investment advisor with a value-oriented investment philosophy. If we could not identify or retain such an advisor, we would be required to make substantial modifications to our investment strategy. Any such changes to our investment strategy could significantly and negatively impact our investment results, financial condition and our ability to implement our

business strategy.

If at anytime 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 SFAS 113 to be accounted for as reinsurance, or loss mitigation insurance products, have become the focus of investigations by the Securities and Exchange Commission, or 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 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.

New Florida legislation could adversely affect the market for Florida-specific programs and, if replicated by other jurisdictions, could adversely affect the U.S. reinsurance market and our business.

On January 26, 2007, the Florida governor signed a law that, among other things, substantially increases the amount of reinsurance available to primary insurers from the Florida Hurricane Catastrophe Fund, increases competitiveness of a state-sponsored primary insurer, and increases the capitalization requirements of certain insurers to operate in the Florida market. Accordingly, these laws are expected to result in a reduction of the amount of private market reinsurance required by primary insurers and may reduce overall primary insurance coverage due to the expansion of a state-sponsored primary insurer. To the extent that such legislation serves to shift reinsurance purchases from the private reinsurance market to that state's catastrophe fund or mandates certain pricing for reinsurance, our revenues may be adversely impacted in the future as insurers may become increasingly reliant on the state's resources, potentially reducing our reinsurance opportunities in Florida.

As of March 31, 2007, our largest contract provided reinsurance to First Protective Insurance Company, a Florida homeowners' insurer. Our contract provides property coverage that excludes catastrophes and is structured such that the premium and economics of the contract are not immediately impacted by the new Florida legislation. However, we cannot predict how this legislation will impact this client relationship, if at all, in the long term. We note that the recently-enacted Florida legislation could cause our client to reduce its prices in order to remain competitive with the state-sponsored primary insurer. Any reduction in pricing may diminish the client's ability and/or desire to compete in the Florida market and, accordingly, our reinsurance opportunities with this client in the Florida market. Alternatively, the legislation may, in fact, increase our client's opportunities as some of its competitors may withdraw from the market as they may not be able to compete effectively due to increased capitalization or other newly enacted requirements. If the demand for our client's product offerings increases due to less competition and fewer market participants, our reinsurance opportunities may increase.

Additionally, similar laws may be enacted in other jurisdictions, which could have an adverse impact on the U.S. reinsurance market and could negatively affect our business.

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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.

We have engaged DME Advisors to act as our exclusive investment advisor for our investment portfolio and to recommend 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 subadvisors 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. The advisory agreement terminates on December 31, 2009, 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, 2009, 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 and impact our liquidity, which could in turn adversely affect our financial condition and results of operations.

We derive a significant portion of our income from our investment portfolio. As a result, our operating results depend in part on the performance of our investment portfolio. We strive to structure our investments in a manner that recognizes our liquidity needs for future liabilities. We cannot assure you that DME Advisors will successfully structure our investments in relation to our anticipated liabilities. Failure to do so could force us to liquidate investments at a significant loss or at prices that are not optimal, which could significantly and adversely affect our financial results. The returns on our investment portfolio for the years ended December 31, 2005 and 2006 and the three-month period ended March 31, 2007 were \$27.9 million, \$58.5 million, and (\$14.4 million), respectively, compared to total revenue of \$29.3 million, \$86.1 million and \$6.5 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.

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

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time to the affairs of our company. Affiliates of DME Advisors, including Greenlight Capital, Inc., manage and expect to continue to manage other client accounts, some of which have objectives similar to ours, including collective investment vehicles managed by DME Advisors' affiliates and in which DME Advisors or its affiliates may have an equity interest. Pursuant to our advisory agreement with DME Advisors, DME Advisors has the exclusive right to manage our investment portfolio and is required to follow our investment guidelines and act in a manner that is fair and equitable in allocating investment opportunities to us, but the agreement does not otherwise impose any specific obligations or requirements concerning allocation of time, effort or investment opportunities to us or any restriction on the nature or timing of investments for our account and for DME Advisors' own account or other accounts that DME Advisors or its affiliates may manage. If we compete for any investment opportunity with another entity that DME Advisors or its affiliates manage, DME Advisors is not required to afford us any exclusivity or priority. DME Advisors' interest and the interests of its affiliates, including Greenlight Capital, Inc., may at times conflict, possibly to DME Advisors' detriment, which may potentially adversely affect our investment opportunities and returns.

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

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

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

Our investment guidelines provide that DME Advisors may commit up to 20% of our assets under management to any one investment. Accordingly, from time to time we may hold a few, relatively large securities positions in relation to our capital. As of March 31, 2007, we were invested in fewer than 100 equity securities and the top five long and short positions in equity securities comprised an aggregate of 34% and 23%, respectively, of our investment portfolio. As of December 31, 2006, approximately 10.3% of our invested capital was invested in one long position in Lanxess AG. As of March 31, 2007, no investment comprised more than 10% of our invested capital. 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.

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 can have a disproportionately large effect in relation to our capital. Any event which may adversely affect the value of positions we hold could significantly negatively affect the net asset value of our investment portfolio and thus our results of operations.

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

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

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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 management fee of 1.5% annually, charged monthly, based on net assets under management; and
- performance compensation based on the appreciation, including unrealized appreciation, in the value of our investment portfolio equal to 20% of net profits, 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.

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. During Mr. Einhorn's tenure as a director of New Century, Mr. Einhorn periodically was privy to material non-public information about New Century. In addition, Mr. Einhorn was subject to New

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Century's insider trading policy, which prohibits directors and certain officers from trading in the company's securities during specific times. As a result, Mr. Einhorn and the investment advisory firms he manages, including DME Advisors, from time to time were restricted from trading New Century's securities.

Each of New Century's directors, including Mr. Einhorn, has been named as a defendant in several shareholder lawsuits. 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 lawsuits, 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 March 31, 2007, representatives of DME Advisors sat on the board of directors of each of Biofuel Energy Corp. and Ark Real Estate Partners LP, both of which as of March 31, 2007 were privately-held. As of March 31, 2007, our portfolio included investments in each of Biofuel Energy Corp. 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, 2007 through December 31, 2009 and will automatically renew for successive three-year terms unless we or DME Advisors notify the other party at least 90 days prior to the end of the current term of its desire to terminate. We may terminate the advisory agreement prior to the expiration of its term only “for cause,” which is defined as:

- a material violation of applicable law relating to DME Advisors’ advisory business;
- DME Advisors’ gross negligence, willful misconduct or reckless disregard of its obligations under the advisory agreement;
- a material breach by DME Advisors of our investment guidelines that is not cured within a 15-day period; or
- a material breach by DME Advisors’ of its obligations to return and deliver assets as we may request.

If we become dissatisfied with the results of the investment performance of DME Advisors, we will be unable to hire new investment managers until the advisory agreement expires by its terms or is terminated for cause.

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

Our investment guidelines provide DME Advisors with the flexibility to invest in certain securities with limited liquidity or no public market. This lack of liquidity may adversely affect the

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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 Advisor 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.

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

- a 1.5% annual fee, regardless of the performance of our investment account, payable monthly based on the net asset value of our investment account, with certain exceptions, or management fee, and
- performance compensation based on the appreciation in the value of our investment account equal to 20% of net profits calculated per annum, or incentive fee, subject to a loss carryforward provision.

The loss carryforward provision allows DME Advisors to earn a reduced incentive fee 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.

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### Risks Relating to our Class A Ordinary Shares

A shareholder may be required to sell its Class A Ordinary Shares.

Our 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 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 a company’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:

- 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 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 David 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

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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 a company. This may make it more difficult for shareholders to assess the value of any consideration they may receive in a merger or consolidation or to require that the offeror give a shareholder additional consideration if he believes the consideration offered is insufficient.

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

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

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

In certain circumstances, the total voting power of our 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 Ordinary Shares acquires shares representing 9.9% or more of the total voting power of our Ordinary Shares or the Class B Ordinary Shares represent more than 9.5% of the total voting power of our 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 Ordinary Shares.

Such a shareholder may become subject to the reporting and disclosure requirements of Sections 13(d) and (g) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such a reallocation also may result in an obligation to amend previous filings made under Section 13(d) or

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(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.

After giving effect to the offering described herein and the concurrent private placement of Class B Ordinary Shares to David Einhorn, Mr. Einhorn will own 18.1% of the issued and outstanding Ordinary Shares, assuming that the price of the Class A Ordinary Shares is at the mid-point of the offering, causing him to exceed the 9.5% limitation imposed on the total voting power of the Class B Ordinary Shares. Thus, the remaining 8.6% of 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 you 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 you and the other holders of Class A Ordinary Shares. Accordingly, we cannot tell you with precision what multiple of a vote per share you will be allocated as a result of the anticipated reallocation of voting power of the Class B Ordinary Shares.

## Risks Relating to Taxation

In addition to the risk factors discussed below, we advise you to read “Certain Cayman Islands Tax Considerations” described on page 107 and “Certain United States Tax Considerations” beginning on page 107 and to consult your own tax advisor regarding the tax consequences to your investment in our Class A Ordinary Shares.

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 for twenty years from February 1, 2005. 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 United States trade or business 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 in the United States and thus are subject to current United States federal income taxation.

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 PFIC. We believe that each of Greenlight Re and Greenlight Reinsurance, Ltd. were PFICs in 2006, 2005 and 2004. We further believe, although we cannot assure you, that neither Greenlight Re nor Greenlight Reinsurance, Ltd. will be a PFIC for 2007 or any future taxable year.

In general, either of Greenlight Re or Greenlight Reinsurance Ltd. would be a PFIC for a taxable year if 75% or more of its income constitutes “passive income” or 50% or more of its assets

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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 company’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. Moreover, our expectation with respect to 2007 is based on the amount of risk that we expect to underwrite during the remainder of the year. If we are unable to underwrite sufficient amount of risk for 2007 or thereafter, we may be a PFIC.

In addition, sufficient risk must be transferred under an insurance company’s contracts with its insureds in order to qualify for the insurance exception. Whether our insurance contracts possess adequate risk transfer for purposes of determining whether income under our contracts is insurance income, and whether we are predominantly engaged in the insurance business, are subjective in nature and there is very little authority on these issues. However, because we are and may continue to be engaged in certain structured risk and other non-traditional reinsurance markets, we cannot assure you that the IRS will not successfully challenge the level of risk transfer under our reinsurance contracts for purposes of the insurance company exception. The IRS has notified taxpayers in IRS Notice 2003-34 that it intends to scrutinize the activities of certain insurance companies located outside of the United States, including reinsurance

companies that invest a significant portion of their assets in alternative investment strategies, to determine whether such companies qualify for the active insurance company exception in the PFIC rules. 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.

The consequences of Greenlight Re and/or Greenlight Reinsurance, Ltd. being treated as a PFIC and certain elections designed to mitigate such consequences are discussed in more detail under the heading “Certain United States Tax Considerations” beginning on page 107. If you are a United States person, we advise you to consult your own tax advisor concerning the potential tax consequences to you under the PFIC rules.

**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 controlled foreign corporation rules, each United States 10% shareholder must annually include his pro rata share of the controlled foreign corporation’s “subpart F income,” even if no distributions are made. In general, a foreign insurance company will be treated as a controlled foreign corporation only if United States 10% shareholders collectively own more than 25% of the total combined voting power or total value of the company’s shares for an uninterrupted period of 30 days or more during any year. We believe that the anticipated 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 controlled foreign corporation rules.

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

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

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

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

The tax laws and interpretations regarding whether a company 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.

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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.

#### Risks Relating to This Offering

There is no prior public market for our Class A Ordinary Shares and we cannot assure you that an active trading market or a specific share price will be established or maintained. The market price and trading volume of our Class A Ordinary Shares may be volatile, and you may not be able to resell your Class A Ordinary Shares at or above the initial public offering price.

Our Class A Ordinary Shares will be listed on the Nasdaq Global Select Market under the symbol "GLRE." Prior to the closing of this offering, there has been no public trading market of our Class A Ordinary Shares. If an active trading market does not develop and continue upon the closing of this offering, your investment may become less liquid and the market price of our Class A Ordinary Shares may decline below the initial public offering price. The initial public offering price per share will be determined by negotiation among us and the underwriters and may not be indicative of the market price of our Class A Ordinary Shares after completion of this offering. The price of our Class A Ordinary Shares after the closing of this offering may fluctuate widely, depending upon many factors, including:

- the perceived prospects for the reinsurance industry in general;
- differences between our actual financial and operating results and those expected by investors;
- changes in the share price of public companies with which we compete;
- news about our industry and our competitors;
- changes in general economic or market conditions including broad market fluctuations;
- adverse regulatory actions; and
- other factors listed in this section or otherwise.

Our Class A Ordinary Shares may trade at prices significantly below the initial public offering price in which case, holders of the Class A Ordinary Shares may experience difficulty in reselling, or an inability to sell, the Class A Ordinary Shares. In addition, when the market price of a company's common equity drops significantly, shareholders often institute securities class action lawsuits against the company. A lawsuit against us could cause us to incur substantial costs and could divert the time and attention of our management and other resources away from the day-to-day operations of our business.

We will incur increased costs as a result of being a public company.

As a public company, we will incur increased legal, accounting and other costs not incurred as a private company. The Sarbanes-Oxley Act of 2002 and related rules and regulations of the SEC and the Nasdaq market regulate the corporate governance practices of public companies. We expect that compliance with these requirements will increase our expenses and make some activities more time consuming than they have been in the past when we were a private company. Such additional costs going forward could negatively impact our financial results.

Securities analysts may not initiate coverage of our Class A Ordinary Shares or may issue negative reports, which may adversely affect the trading price of the Class A Ordinary Shares.

We cannot assure you that securities analysts will cover our company after completion of this offering. If securities analysts do not cover our company, this lack of coverage may adversely affect

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the trading price of the Class A Ordinary Shares. The trading market for the Class A Ordinary Shares will rely in part on the research and reports that securities analysts publish about us and our business. If one or more of the analysts who cover our company downgrades the Class A Ordinary Shares, the trading price of the Class A Ordinary Shares may decline. If one or more of these analysts ceases to cover our company, we could lose visibility in the market, which, in turn, could also cause the trading price of the Class A Ordinary Shares to decline. Further, because of our small market capitalization, it may be difficult for us to attract securities analysts to cover our company, which could significantly and adversely affect the trading price of our Class A Ordinary Shares.

You will suffer immediate and substantial dilution as a result of investing in the Class A Ordinary Shares.

The initial public offering price per Class A Ordinary Share is higher than our net tangible book value per share. Accordingly, if you purchase Class A Ordinary Shares in this offering, you will suffer immediate and substantial dilution of your investment. Based upon the issuance and sale of Class A Ordinary Shares, and the concurrent private placement of Class B Ordinary Shares, you will incur immediate dilution of approximately \$3.69 in the net tangible value per Ordinary Share. See “Dilution.”

Future sales of our Class A Ordinary Shares may affect their market price and the future exercise of share purchase options and the concurrent private placement may result in immediate and substantial dilution of the Class A Ordinary Shares.

Our Articles authorize our Board of Directors to issue one or more series of ordinary shares and preferred shares without shareholder approval. Specifically, our Board of Directors may issue up to 100,000,000 Class A Ordinary Shares, 25,000,000 Class B Ordinary Shares and 50,000,000 preferred shares, of which 28,291,023 Class A Ordinary Shares or 29,828,523 Class A Ordinary Shares if the underwriters exercise their option to purchase additional Class A Ordinary Shares in full (10,250,000 of which the issuance will be registered under this offering or 11,787,500 if the underwriters exercise the overallotment), 6,254,949 Class B Ordinary Shares and no preferred shares will have been issued as of this offering and the concurrent private placement. Our Board of Directors has the right to issue the remaining shares as provided by our Articles and without obtaining any approval from our shareholders, and to designate and issue up to 50,000,000 preferred shares in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any series or designation of such series. Any issuance of our preferred shares could adversely affect the voting power of the holders of our Class A Ordinary Shares and could have the effect of delaying, deferring, or preventing the payment of any dividends, including any liquidating dividends, and any change in control of the company. While we have not issued any preferred shares and have no present plans to do so, we may do so in the future. If we issue any preferred shares, you should know that our Class A Ordinary Shares may be subordinate to our preferred shares and any series of preferred shares designated and issued by our Board of Directors. Additionally, if a significant number of shares are issued, it may cause the market price of our Class A Ordinary Shares to decline.

We, all of our directors and executive officers, and shareholders have agreed that, subject to certain exceptions, without the prior written consent of each of Lehman Brothers Inc. and UBS Securities LLC, we and they will not directly or indirectly, among other things, offer for sale, sell, pledge, or otherwise dispose of any Ordinary Shares or securities convertible into or exercisable or exchangeable for Class A Ordinary Shares for a period of 180 days after the date of this prospectus. We cannot predict what effect, if any, future sales of our Ordinary Shares, or the

availability of Ordinary Shares for future sale, will have on the market price of our Ordinary Shares, including after the expiration of the 180 day lock-up period. Sales of substantial amounts of our Ordinary Shares in the public market following our initial public offering, or the perception that such sales could occur, may adversely affect the market price of our Ordinary Shares and may make it more difficult for you to sell your Ordinary Shares at a time and price which you deem appropriate.

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### INFORMATION REGARDING FORWARD LOOKING STATEMENTS

Certain information contained in this prospectus is forward-looking. All statements, other than statements of historical facts, included or referenced in this prospectus that address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements. Statements which include the words “expect,” “intend,” “plan,” “believe,” “project,” “anticipate,” “will,” and similar statements of a future or forward-looking nature are forward-looking statements.

These statements include forward-looking statements both with respect to us specifically and the reinsurance industry generally. These statements are based on certain assumptions and analyses made by us in light of our expertise and perception of historical trends, current conditions and expected future developments, as well as other factors believed to be appropriate in the circumstances. However, whether actual results and developments will conform to our expectations and conditions is subject to a number of risks and uncertainties that could cause actual results to differ materially from our expectations, including, but not limited to:

- The risks beginning on page 12 of this prospectus;
- Our operating results will fluctuate from period from period;
- We have a limited operating history;
- There is uncertainty with respect to the establishment of our reserves;
- The cyclicity of the reinsurance market may affect the industry’s and our profitability;
- Loss of key personnel could delay or prevent us from implementing our strategy;
- We depend upon DME Advisors to implement our investment strategy;
- We are dependent upon letter of credit facilities;
- Our A.M. Best rating potentially is subject to downgrade;
- Exposure to natural and man-made disasters may expose us to significant claims;
- We may not qualify for an exemption from the Investment Company Act;
- Our investment strategy may contain greater risks than our competitors’;
- We may be deemed to be passive foreign investment company; and
- Other factors may affect us, most of which are beyond our control.

Accordingly, all of the forward-looking statements made in this prospectus are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us or our business or operations. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. 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. You should specifically consider the factors identified in this prospectus which could cause actual results to differ before you make an investment decision.



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USE OF PROCEEDS

We estimate net proceeds to us from the sale of approximately 10,250,000 Class A Ordinary Shares in this offering, and after deducting estimated underwriting discounts and commissions and estimated offering expenses, will be approximately \$179.1 million (\$206.3 million if the underwriters exercise in full their option to purchase additional Class A Ordinary Shares). Additionally, we will receive \$50.0 million of proceeds from the sale of Class B Ordinary Shares in the concurrent private placement at a price per share equal to the initial public offering price. We presently intend to contribute substantially all of the net proceeds of this offering and the concurrent private placement to Greenlight Reinsurance, Ltd. to increase the underwriting capacity of its reinsurance operations.

We will pay specified fees and expenses related to this offering. The total fees and expenses, including underwriting discounts and commissions, to be paid by us are estimated to be \$15.6 million.

DIVIDEND POLICY

We have not paid any cash dividends on our 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, our 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 Class A 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, Ltd. is not subject to any significant legal prohibitions on the payment of dividends, Greenlight Reinsurance, Ltd. 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 statutory net worth requirement for Greenlight Reinsurance, Ltd. is \$120,000, but subject to the discretion of CIMA. As of March 31, 2007, Greenlight Reinsurance, Ltd. exceeded the minimum statutory capital requirement by \$299.6 million. Any dividends we pay will be declared and paid in U.S. dollars.

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CAPITALIZATION

The table below sets forth our consolidated capitalization as of March 31, 2007:

- on an actual basis; and
- as adjusted to give effect to this offering of our Class A Ordinary Shares and the concurrent private placement of our Class B Ordinary Shares and the application of the net proceeds of both offerings.

This table should be read in conjunction with “Selected Consolidated Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of March 31, 2007	As adjusted for this offering and the concurrent private placement <sup>(2)</sup>
Debt: <sup>(1)</sup>	\$ —	\$ —
Shareholders’ equity:		
Preferred share capital (par value \$0.10; authorized; 50,000,000; none issued)	—	—
Ordinary share capital:		
Class A Ordinary Shares par value \$0.10; 100,000,000 shares authorized; 18,041,023 shares issued and outstanding, actual; 28,291,023 shares issued and outstanding, as adjusted	1,804	2,829
Class B Ordinary Shares par value \$0.10; 25,000,000 shares authorized; 3,623,370 shares issued and outstanding, actual; 6,254,949 shares issued and outstanding, as adjusted	362	626
Additional paid-in capital	220,663	448,492
Less: Related party promissory note receivable	—	—
Retained earnings	76,899	76,899
Total shareholders’ equity	\$ 299,728	\$ 528,846

<sup>(1)</sup> As of March 31, 2007, we had \$134.4 million available under our \$200 million letter of credit facility provided by Citibank, N.A.

<sup>(2)</sup> Reflects completion of this offering, net of underwriting discounts and commissions and estimated offering expenses of \$15.6 million (assuming no exercise of the underwriters’ option to purchase additional Class A Ordinary Shares) and the concurrent private placement of our Class B Ordinary Shares.

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DILUTION

The initial public offering price per Class A Ordinary Share is higher than our book value per Ordinary Share. Net book value per Ordinary Share represents the amount of assets less total liabilities, divided by the number of Ordinary

Shares outstanding. Dilution in net book value per Ordinary Share represents the difference between (i) the amount per Class A Ordinary Share paid by purchasers of our Class A Ordinary Shares in this offering and (ii) the net book value per Ordinary Share immediately after this offering. As of March 31, 2007, our net book value was \$299.7 million, or \$13.84 per Ordinary Share. After giving effect to the issuance in this initial public offering of our Class A Ordinary Shares (after deducting estimated underwriting discounts and commissions and our estimated offering expenses and assuming that the underwriters' option to purchase additional Class A Ordinary Shares is not exercised) and the concurrent private placement of Class B Ordinary Shares and the application of the estimated net proceeds therefrom, our net book value as of March 31, 2007 would have been \$528.8 million, or \$15.31 per Ordinary Share. This amount represents an immediate increase of \$1.47 per Ordinary Share to the existing shareholders and an immediate dilution of \$3.69 per Ordinary Share issued to the new investors purchasing shares offered hereby at the assumed public offering price. The following table illustrates this per Ordinary Share dilution:

Initial public offering price per Class A Ordinary Share	\$ 19.00
Net book value per Ordinary Share as of March 31, 2007	13.84
Increase attributable to the offering of Class A Ordinary Shares	1.17
Increase attributable to the concurrent private placement offering of Class B Ordinary Shares	0.30
Net book value per Ordinary Share after the offering of Class A Ordinary Shares and concurrent private placement of Class B Ordinary Shares	15.31
Dilution per Ordinary Share to new investors <sup>(1)</sup>	\$ 3.69

(1) If the underwriters' option to purchase additional Class A Ordinary Shares is exercised in full, dilution per Ordinary Share to new shareholders will be \$3.59.

The following table sets forth the number of our issued Class A Ordinary Shares, the total consideration paid and the average price per Ordinary Share paid by all of our existing shareholders and new investors, after giving effect to the issuance of Class A Ordinary Shares in this offering (before deducting estimated underwriting discounts and commissions and our estimated offering expenses).

	Class A Ordinary Shares issued		Class B Ordinary Shares issued		Total consideration		Average price per Ordinary Share
	Number	Percent	Number	Percent	Amount	Percent	
					(\$ in thousands)		
Existing shareholders	18,041,023	63.8%	3,623,370	57.9%	\$ 216,387	46.9%	\$ 9.99
New investors	10,250,000	36.2	2,631,579	42.1	244,750	53.1	19.00
Total	28,291,023	100.0%	6,254,949	100.0%	\$ 461,137	100.0%	\$ 13.35

This table does not give effect to:

- 1,537,500 Class A Ordinary Shares that may be issued pursuant to the underwriters' option to purchase additional Class A Ordinary Shares;
- Class A Ordinary Shares that may be issued pursuant to options that have been granted as of May 1, 2007 at a weighted average exercise price or \$11.85 per share pursuant to our stock incentive plan; or

- 400,000 Class A Ordinary Shares that may be issued pursuant to a share purchase option granted in September 2004 to First International in exchange for services rendered.

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### SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected historical statement of income data for the three-month periods ended March 31, 2007 and 2006, the fiscal years ended December 31, 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 March 31, 2007 and December 31, 2006, 2005 and 2004. The statement of income data for the years ended December 31, 2006, 2005 and 2004 as well as the balance sheet information as of December 31, 2006, 2005 and 2004 are derived from our audited consolidated financial statements also included as part of this prospectus. 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 prior periods may not be meaningful.

These historic results are not necessarily indicative of results for any future period and the year to date results are not necessarily indicative of our full year performance. You should read the following selected financial data in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements and related notes included elsewhere in this prospectus.

	Three Months Ended March 31,		Year Ended December 31,		July 13, 2004
	2007	2006	2006	2005	to December
	(\$ in thousands, except for share and per share data)				
	31,				
	2004				
Summary Statement of Income Data:					
Net premiums written	\$ 24,321	\$ —	\$ 74,151	\$ —	—
Net premiums earned	20,921	—	26,605	—	—
Net investment (loss) income	(14,381)	17,196	58,509	27,934	9,636
Interest income on related party promissory note receivable	—	289	1,034	1,323	516
Total revenues	6,540	17,485	86,148	29,257	10,152
Loss and loss adjustment expenses incurred	8,988	—	9,671	—	—
Acquisition costs	7,712	—	10,415	—	—
General and administrative expenses	2,980	2,015	9,063	2,992	3,377
Total expenses	19,680	2,015	29,149	2,992	3,377
Net (loss) income	\$ (13,140)	\$ 15,470	\$ 56,999	\$ 26,265	\$ 6,775
(Loss) Earnings Per Share Data: <sup>(1)</sup>					
Basic	\$ (0.61)	\$ 0.73	\$ 2.67	\$ 1.24	\$ 0.32
Diluted	(0.61)	0.73	2.66	1.24	0.32
Weighted average number of					

## Ordinary Shares:

Basic	21,558,915	21,227,222	21,366,140	21,226,868	21,225,000
Diluted	21,558,915	21,302,904	21,457,443	21,265,801	21,234,350

## Selected Ratios (based on U.S.

## GAAP Statement of Income data):

Loss ratio <sup>(2)</sup>	43.0%	—	36.4%	—	—
Acquisition cost ratio <sup>(3)</sup>	36.9%	—	39.1%	—	—
Internal expense ratio <sup>(4)</sup>	14.2%	—	34.1%	—	—
Combined ratio <sup>(5)</sup>	94.1%	—	109.6%	—	—

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	As of March 31, 2007	As of December 31, 2006	As of December 31, 2005
	(\$ in thousands, except for share and per share data)		
Selected Balance Sheet Data:			
Fixed maturities, trading at fair value	\$ 770	\$ —	\$ 238
Equity investments, trading at fair value	250,337	238,799	216,702
Other investments, at estimated fair value	8,655	4,723	2,271
Total investments in securities	259,762	243,522	219,211
Cash and cash equivalents	54,039	82,704	7,218
Restricted cash and cash equivalents	191,927	154,720	99,719
Loss and loss expense recoverable	2,753	—	—
Unearned premiums ceded	10,306	—	—
Total assets	563,577	518,608	327,935
Loss and loss adjustment expense reserves	16,717	4,977	—
Unearned premium reserves	61,262	47,546	—
Total liabilities	263,849	206,441	96,113
Total shareholders' equity	299,728	312,167	231,822
Adjusted book value <sup>(6)</sup>	299,728	\$ 312,167	\$ 248,034
Ordinary shares outstanding:			
Basic	21,664,393	21,557,228	21,231,666
Diluted	23,195,393	23,094,900	22,175,000
Per Share Data:			
Basic adjusted book value per share <sup>(7)</sup>	\$ 13.84	\$ 14.48	\$ 11.68
Diluted adjusted book value per share <sup>(8)</sup>	13.67	14.27	11.63

(1) Basic earnings per share is calculated by dividing net (loss) income by the weighted average number of shares outstanding for the period. 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 period.

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

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

- (4) The internal expense ratio is calculated by dividing the 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 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 number of shares and share equivalents outstanding at the end of the period.

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

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes, which appear elsewhere in this prospectus.

#### Executive Overview

We are a Cayman Islands-based specialty property and casualty reinsurer with a reinsurance and investment strategy that we believe differentiates us from our competitors. Our goal is to build long-term shareholder value by selectively offering customized reinsurance solutions, in markets where capacity and alternatives are limited, that we believe will provide favorable long-term returns on equity. We 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.

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 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. 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 our frequency 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.

Because we have a limited operating history, period-to-period comparisons of our underwriting results are not yet possible and may not be meaningful in the near future. In addition, due to the nature of our reinsurance and investment strategies, our operating results will likely fluctuate from period to period.

## 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. We earn premiums over the contract term, which is typically twelve months.

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

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### 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 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 option expenses, professional fees, travel and entertainment, letter of credit facility, 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 critical accounting policies is included in the notes to the consolidated financial statements.

**Premium Revenues and Risk Transfer.** Our property and casualty reinsurance premiums are recorded as premiums written at the inception of each contract, based upon contract terms and information received from ceding companies and their brokers. For excess of loss reinsurance contracts, premiums are typically stated as a percentage of the subject premiums written by the client, subject to a minimum and deposit premium. The minimum and deposit premium is typically based on an estimate of subject premium 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

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be greater for quota-share contracts than for excess of loss contracts. 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 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. We classify all investments as trading securities and record their values based on the last reported price on the balance sheet date as reported by a recognized exchange. If no such sale of such security was reported on that date, the market value will be the last reported bid price (in the case of securities held long), or last reported ask price (in the case of securities sold short). Securities for which recognized exchange quotations are not readily available are valued at management's best estimate (utilizing the services of DME Advisors) of fair value based on prices received from market makers. Any realized and unrealized gains or losses are determined on the basis of the specific identification method (by reference to cost or amortized cost, as appropriate) and included in investment income in the statement of income.

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 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 losses.

For natural catastrophe 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 by us and management's judgment.

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Reserves for losses and loss adjustment expenses were comprised of the following:

	March 31, 2007			December 31, 2006		
	Case Reserves	IBNR	Total	Case Reserves	IBNR	Total
	(\$ in thousands)			(\$ in thousands)		
Frequency	\$ 1,058	\$ 14,309	\$ 15,367	\$ 1,058	\$ 2,985	\$ 4,043
Severity	—	1,350	1,350	—	934	934
Total	\$ 1,058	\$ 15,659	\$ 16,717	\$ 1,058	\$ 3,919	\$ 4,977

In each of the contracts we have written to date, 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.

For all non-natural catastrophe 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 written, 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 to identify unusual trends in the data 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 period of time but for which claims are reported relatively early and case loss reserve estimates established.

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- **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. As of March 31, 2007, we had not adjusted any of our reserves since commencing underwriting operations in April 2006. 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 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 intend to have our loss reserves reviewed, on an annual basis, by an independent outside actuary who will test and review the work done by our actuaries to ensure that reserves we report are being established consistently and appropriately. Although we intend for our reserves to be reviewed by an independent outside actuary beginning in 2007, as of March 31, 2007, we had not yet hired an independent firm to perform such a review.

**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 same period as premiums are earned. Acquisition costs also include profit commissions.

**Share-Based Payments.** We have established a stock option plan, for 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. Determining the fair value of share based 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. Due to our limited operating history, we also use the "calculated value method," which relies on historical industry volatility and uses the full life of the option, ten years, as the estimated term of the option. Additionally, 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

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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.

Additionally, in September 2004 we granted 400,000 share purchase options with a 10-year expiration to a service provider in exchange for services rendered, for which we have applied SFAS 123R, "Share Based Payments." The share

purchase options granted to the service provider were expensed based on a fair value of \$2.0 million and are included in general and administrative expenses in our consolidated financial statements for the year ended December 31, 2004, the year in which the services were provided.

## Results of Operations

### Comparison of Three Months Ended March 31, 2007 and 2006

#### Premiums Written

For the three months ended March 31, 2007, we wrote \$38.1 million of gross premiums and wrote seven reinsurance contracts compared to no premiums or reinsurance contracts in the prior comparable period. The gross premiums written were comprised of \$32.9 million of frequency business and \$5.2 million of severity business. We entered into two retrocessional contracts during the period relating to the risks assumed from one assumed frequency reinsurance contract. The premiums written net of retrocessional coverage, or net premiums written, for the period were \$24.3 million.

#### Premiums Earned

We earned net premiums of \$20.9 million for the three months ended March 31, 2007, comprised of \$15.9 million of frequency business and \$5.0 million of severity business. There were no premiums earned in the prior comparable period. Premiums earned reflect the pro rata inclusion into income of premiums written over the life of the reinsurance contract.

#### Losses Incurred

Losses incurred include losses and changes in loss reserves, including IBNR reserves, net of loss recoveries from retrocessionaires. We incurred net losses of \$9.0 million for the three months ended March 31, 2007, comprised of \$8.6 million of frequency business and \$0.4 million of severity business. There were no significant natural catastrophes during the three months ended March 31, 2007, which impacted this business. There were no losses in the prior comparable periods.

#### Acquisition Costs

Acquisition costs for the three months ended March 31, 2007 totaled \$7.7 million and were comprised of \$6.5 million of frequency business and \$1.2 million of severity business. These acquisition costs represent the amortization of the commission and brokerage expenses incurred on contracts written. Deferred acquisition costs are limited to the amount expected to be recovered from future earned premiums and anticipated investment income. There were no acquisition costs in the prior comparable period.

#### General and Administrative Expenses

Our general and administrative expenses for the three months ended March 31, 2007 and 2006 were \$3.0 million and \$2.0 million, respectively. The increase in general and administrative expenses of \$1.0 million from the prior period principally reflects the cost of commencing underwriting operations, including hiring additional staff, and other related expenses. These expenses for the three months ended March 31, 2007 include \$0.7 million for the accrual of the fair value of stock options and restricted stock granted to employees and directors. The amount accrued for the three months ended March 31, 2006 was also \$0.7 million.

We expect our general and administrative expenses for 2007 to be higher than reported in 2006 as we continue to hire additional staff and resources to service increasing underwriting operations and to enable us to fulfill the increased

reporting requirements applicable to public companies.

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### Net Investment Income

A summary of our consolidated net investment income is as follows (\$ in thousands):

	Three months ended	
	March 31,	
	2007	2006
Investment (loss) income	\$ (11,445)	\$ 23,439
Investment expenses	(1,673)	(1,063)
Investment advisor fees	(1,263)	(5,180)
Net investment (loss) income	\$ (14,381)	\$ 17,196

For the three months ended March 31, 2007, we experienced a net investment loss of \$14.4 million compared to net investment income of \$17.2 million reported for the comparable period. Investment returns net of all fees and expenses resulted in a loss of 4.2% on our investment portfolio, related to a loss on a long position in New Century, a subprime mortgage lender that filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code on April 2, 2007, partially offset by gains in the balance of the portfolio. As of March 31, 2007, investments in subprime mortgage lenders represented less than one half of one percent of our total invested capital.

### 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.

### Net Income

For the three months ended March 31, 2007, we reported a net loss of \$13.1 million compared to net income of \$15.5 million for the prior period. The decline of net income is due primarily to the negative investment returns reported for the three months ended March 31, 2007.

### Ratio Analysis

As a result of the nature of our frequency and severity businesses, we expect to report different loss and expense ratios in these categories from period to period. For the three months ended March 31, 2007, the following ratios are reported:

Frequency	Severity	Total
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Loss ratio	53.8%	8.4%	43.0%
Acquisition cost ratio	40.6%	24.9%	36.9%
Composite ratio	94.4%	33.3%	79.9%
Internal expense ratio			14.2%
Combined ratio			94.1%

The loss ratio is calculated by dividing loss and loss adjustment expenses incurred by premiums earned. For the three months ended March 31, 2007, our frequency business reported a loss ratio of 53.8%, as compared to the 8.4% reported by our severity business. Favorable loss experience due to benign natural catastrophe experience during the period allowed our severity business to report a lower loss ratio. However, we expect that the loss ratio will be volatile for our severity business and may exceed that of our frequency business in certain periods.

The acquisition cost ratio is calculated by dividing acquisition costs by premiums earned.

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

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The internal expense ratio is the ratio of all general and administrative expenses to premiums earned. We expect our internal expense ratio to decrease as we write more business.

The combined ratio is the ratio of the sum of the composite ratio and the internal expense ratio. It measures the total profitability of our underwriting operations. This ratio does not take investment income into account. The reported combined ratio for the three months ended March 31, 2007 was 94.1%. We expect that our combined ratio may be volatile in certain periods.

There are no applicable ratios for the prior comparable period, since we did not begin underwriting operations until April 2006.

## Comparison of Year Ended December 31, 2006 and 2005

### Premiums Written

For the year ended December 31, 2006, we wrote \$74.2 million of premiums from nine different reinsurance contracts compared to no reinsurance contracts in the prior comparable period. We did not purchase any retrocessional coverage during the period and as such, premiums written for the period equal gross premiums written. The premiums written were comprised of \$58.1 million of frequency business and \$16.1 million of severity business. There were no premiums written in the prior comparable period.

### Premiums Earned

We earned premiums of \$26.6 million for the year ended December 31, 2006, comprised of \$15.6 million of frequency business and \$11.0 million of severity business. There were no premiums earned in the prior comparable

period. Premiums earned reflects the pro rata inclusion into income of premiums written over the life of the reinsurance contract.

#### Losses Incurred

Losses incurred include losses and changes in loss reserves, including IBNR reserves. We incurred losses of \$9.7 million for the year ended December 31, 2006, comprised of \$8.7 million of frequency business and \$1.0 million of severity business. There were no losses in the prior comparable periods.

We have benefited from benign natural catastrophe experience during the year ended December 31, 2006. As such the dollar losses incurred during the year are likely to be lower than we expect to experience in the future as our underwriting portfolio develops.

#### Acquisition Costs

Acquisition costs for the period ended December 31, 2006 totaled \$10.4 million and are comprised of \$6.4 million of frequency business and \$4.0 million of severity business. These acquisition costs represent the amortization of the commission and brokerage expenses incurred on contracts written. Deferred acquisition costs are limited to the amount expected to be recovered from future earned premiums and anticipated investment income. There were no acquisition costs in the prior comparable period.

#### General and Administrative Expenses

Our general and administrative expenses for the years ended December 31, 2006 and 2005 were \$9.1 million and \$3.0 million, respectively. The increase in general and administrative expenses of \$6.1 million in 2006 from 2005 reflects the cost of commencing underwriting operations, including hiring staff, leasing office space, and other related expenses. These expenses for the year ended December 31, 2006 include \$2.9 million for the accrual of the fair value of stock options granted to employees and directors as compared to \$0.7 million for the year ended December 31, 2005.

We expect our general and administrative expenses to increase once we become subject to reporting requirements applicable to public companies.

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##### Net Investment Income

A summary of our consolidated net investment income is as follows (\$ in thousands):

	Year ended December 31,	
	2006	2005
Investment income	\$ 79,635	\$ 38,815
Investment expenses	(2,434)	(698)

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Investment advisor fees	(18,692)	(10,183)
Net investment income	\$ 58,509	\$ 27,934

For the year ended December 31, 2006, net investment income was \$58.5 million dollars, a 109.5% increase from \$27.9 million for the previous year.

### 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.

### Net Income

Our net income increased 117.0% to \$57.0 million for the year ended December 31, 2006 from \$26.3 million for the year ended December 31, 2005. The increase in net income of \$30.7 million is due to the positive impact of underwriting activities and an increase in investment returns experienced during 2006 for the year ended December 31, 2006.

### Ratio Analysis

As a result of the nature of our frequency and severity businesses, we expect to report different loss and expense ratios in these categories from period to period. For the year ended December 31, 2006, the following ratios are reported:

	Frequency	Severity	Total
Loss ratio	55.9%	8.5%	36.4%
Acquisition cost ratio	40.8%	36.8%	39.1%
Composite ratio	96.7%	45.3%	75.5%
Internal expense ratio			34.1%
Combined ratio			109.6%

The loss ratio is calculated by dividing loss and loss adjustment expenses incurred by premiums earned. For the year ended December 31, 2006, our frequency business reported a loss ratio of 55.9%, as compared to the 8.5% reported by our severity business. Favorable loss experience due to benign natural catastrophe experience during the year allowed our severity business to report a lower loss ratio. However, we expect that the loss ratio will be volatile for our severity business and may exceed that of our frequency business in certain periods.

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The acquisition cost ratio is calculated by dividing acquisition costs by premiums earned.

The composite ratio is the ratio of underwriting losses incurred, loss adjustment expenses and acquisition costs, excluding general and administrative expenses, to premiums earned. This ratio demonstrates the higher acquisition costs incurred for frequency business than for severity business. Similar to the loss ratio, we expect that this ratio will



be 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 premiums earned. We expect our internal expense ratio to decrease significantly as we write more business.

The combined ratio is the ratio of the sum of the composite ratio and the internal expense ratio. It measures the total profitability of our underwriting operations. This ratio does not take investment income into account. The reported combined ratio of 109.6% is due to the start-up nature of our reinsurance operations. A combined ratio of 109.6% signifies a loss of \$0.096 per dollar of premium earned. We expect our internal expense ratio to decrease significantly as we continue to expand our underwriting activities.

There are no applicable ratios for the prior comparable period, since we did not begin underwriting operations until April 2006.

Comparison of Year Ended December 31, 2005 and Period From July 13, 2004 (date of incorporation) to December 31, 2004

During the period from July 13, 2004 through the end of 2005, we were in the process building our infrastructure, retaining our management team and procuring office space. No reinsurance contracts were bound prior to April 2006 and thus there was no underwriting activity to report prior to January 1, 2006.

#### Premiums Written

There were no premiums written for the year ended December 31, 2005 or the prior comparable period since we did not begin underwriting operations until April 2006.

#### Premiums Earned

There were no premiums earned for the year ended December 31, 2005 or the prior comparable period since we did not begin underwriting operations until April 2006.

#### Losses Incurred

There were no losses incurred for the year ended December 31, 2005 or the prior comparable period since we did not begin underwriting operations until April 2006.

#### Acquisition Costs

There were no acquisition costs for the year ended December 31, 2005 or the prior comparable period since we did not begin underwriting operations until April 2006.

#### General and Administrative Expenses

Our general and administrative expenses for the periods ended December 31, 2005 and 2004 were \$3.0 million and \$3.4 million, respectively. During 2005, expenses of approximately \$2.2 million were incurred as a result of the initial hiring of staff, professional fees and other administrative expenses. Additionally, approximately \$0.7 million was incurred as a result of stock option expenses granted to new employees.

The expenses for the period ended December 31, 2004 were primarily due to the expensing of \$2.0 million of share purchase options that were granted to a service provider as well as \$1.0 million in legal expenses both of which were incurred in connection with our formation and capitalization.

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## Net Investment Income

A summary of our consolidated net investment income for the year ended December 31, 2005 and the period from July 13, 2004 to December 31, 2004 is as follows:

	Year ended December 31, 2005	Period Ended July 13, 2004 — December 31, 2004
	(\$ in thousands)	
Investment income	\$ 38,815	\$ 13,314
Investment expenses	(698)	(161)
Investment advisor fees	(10,183)	(3,517)
Net investment income	\$ 27,934	\$ 9,636

## 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.

## Net Income

Net income for the year ended December 31, 2005 was \$26.3 million. As there were no contracts underwritten during 2005, net income was the total of net investment income of \$27.9 million plus interest income on related party note of \$1.3 million less operating expenses of \$3.0 million. The increase over net income of \$6.8 million in 2004 is primarily due to the commencement of operations in July 2004.

## Ratio Analysis

There is no ratio analysis for the year ended December 31, 2005 or the prior comparable period since we did not begin underwriting operations until April 2006.

## Liquidity and Capital Resources

## General

We are organized as a holding company with no operations of our own. 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. We have minimal continuing cash needs which are principally related to the payment of administrative expenses. There are restrictions on Greenlight Reinsurance, Ltd.'s ability to pay dividends which are described in more detail below. It is our initial policy to retain earnings to support the growth of our

business. We currently do not expect to pay dividends on our 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 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.

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For the three-month period ended March 31, 2007, we used \$28.7 million in net cash flow from operations, relating primarily to an increase of \$37.2 million in restricted cash. There were no material cash flows for investing or financing activities.

For the period ended December 31, 2006, we generated net cash flow from operations of \$54.7 million, relating, in part, to the receipt of reinsurance premiums (net of acquisition expenses and loss payments) of \$27.8 million. For the year ended December 31, 2006, cash flow from financing was \$21.0 million. During the year ended December 31, 2006, we raised an aggregate of \$4.3 million from the private placements of an aggregate 318,900 Class A Ordinary Shares to employees and directors. Additionally, we received \$16.2 million from principal payments on the related party promissory note, as described below.

On August 11, 2004, we raised \$212.2 million from the private placements of 16,175,000 Class A Ordinary Shares and 5,050,000 Class B Ordinary Shares. In connection with the August 11, 2004 private placement of the Class B Ordinary Shares, we lent \$24.5 million to GCI, as evidenced by the GCI promissory note. GCI used cash and the proceeds of the GCI promissory note to purchase the Class B Ordinary Shares. Under the terms of the GCI promissory note, GCI paid us interest annually at a rate of LIBOR plus 3% per annum. During the year ended December 31, 2006 and 2005, principal repayments totaled \$16.2 million and \$8.3 million. On December 6, 2006, GCI repaid in full the principal and interest on the GCI promissory note.

As of December 31, 2006, we believe we had sufficient cash flow from operations to meet our 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, together with the net proceeds of this offering and the concurrent private placement of Class B Ordinary Shares. We have no plans to issue debt and expect to fund our operations for the foreseeable future from operating cash flow, this offering and the private placement of Class B Ordinary Shares. 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, Ltd. is not subject to any significant legal prohibitions on the payment of dividends, Greenlight Reinsurance, Ltd. is subject to Cayman Islands regulatory constraints that affect its ability to pay dividends to us and include a minimum net worth requirement. Currently the minimum net worth requirement for Greenlight



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Lease obligations	\$ 331	\$ 68	\$ 194	\$ 69	\$ —
Private equity investments <sup>(1)</sup>	2,206	2,206	—	—	—
Loss and loss adjustment expense reserves <sup>(2)</sup>	16,717	12,121	3,913	533	150
	\$ 19,254	\$ 14,395	\$ 4,107	\$ 602	\$ 150

<sup>(1)</sup>We have made total commitments of \$10.5 million to two separate private equity vehicles. As of March 31, 2007, we have invested \$8.3 million of this amount, and our remaining commitments to these vehicles total \$2.2 million. Given the nature of the private equity vehicles, 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.

<sup>(2)</sup>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 provided in the accompanying financial statements. As described above, we have entered into a letter of credit facility which can be terminated by either party with effect from any October 11<sup>th</sup>, the anniversary date, by providing written notification to the other party at least 120 days before the anniversary date. The earliest possible termination date of this agreement is October 11, 2007.

Effective January 1, 2007, we entered into a new advisory agreement with DME Advisors that grants DME Advisors an exclusive right to manage our investment portfolio in accordance with the investment guidelines as approved by the Board of Directors. The agreement expires on December 31, 2009, and will be renewed for successive three-year periods unless either we or DME Advisors gives 90 days notice of its desire to terminate the agreement. The fees under the new advisory agreement are the same as the prior agreement we had with DME Advisors.

#### Off-Balance Sheet Financing Arrangements

We have no obligations, assets or liabilities, other than those derivatives in our investment portfolio and disclosed in the financial statements, which would be considered off-balance sheet

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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.

#### Quantitative and Qualitative Disclosures about Market Risk

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

- equity price risk;
- foreign currency risk;
- interest rate risk;

- credit risk; and
- effects of inflation.

Equity Price Risk. As of March 31, 2007, 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 March 31, 2007, a 10% decline in the price of each of these equity securities and equity-based derivative instruments would result in a \$11.9 million, or 3.6%, decline in the fair value of the total investment portfolio.

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 March 31, 2007, there are no known or estimated 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 investments in securities denominated in foreign currencies, we are exposed to foreign (non-U.S.) currency risk. Foreign currency exchange rate risk is the potential for loss in the U.S. dollar value of investments due to a decline in the exchange rate of the foreign currency in which the investments are denominated. As of March 31, 2007, our total exposure to foreign denominated securities was approximately \$109.4 million, or 32.6%, of our investment portfolio including cash and cash equivalents. As of March 31, 2007, a 5% increase in the value of the United States dollar against select foreign currencies would result in a \$5.5 million decline in the value of the investment portfolio. A summary of our total net exposure to foreign denominated securities is as follows (\$ in thousands):

Original Currency	US\$ Equivalent Fair Value
EUR	\$ 90,084
GBP	12,849
Other	6,423
	\$ 109,356

Interest Rate Risk. Our investment portfolio has historically held a very small portion of fixed-income securities, which we classify as trading securities but may in the future include significant exposure to corporate debt securities, including debt securities of distressed companies. The primary market risk exposure for any fixed-income security is interest rate risk. As interest rates rise, the market value of our fixed-income portfolio falls, and the converse is also true.

**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, 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 in 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.

**Effects of Inflation.** We do not believe that inflation has had or will have a material effect on our combined results of operations, except insofar as inflation may affect interest rates.

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### BUSINESS

#### Company Overview

We are a Cayman Islands-based specialty property and casualty reinsurer with a reinsurance and investment strategy that we believe differentiates us from our competitors. Our goal is to build long-term shareholder value by selectively offering customized reinsurance solutions, in markets where capacity and alternatives are limited, that we believe will provide favorable long-term returns on equity. We 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.

Our reinsurance strategy is to build a portfolio of select frequency and severity contracts with a focus on contracts customized to meet client needs that are not being met in the traditional reinsurance marketplace. Frequency contracts contain a potentially large number of small losses from multiple events and severity contracts contain the potential for significant losses from one event. We have established a senior team of generalist underwriters and actuaries to operate our reinsurance business. We believe that our generalist underwriting capabilities, together with our customized underwriting approach:

- allow us to deploy our capital opportunistically in a variety of property and casualty lines of business;
- enable us to be the lead underwriter on a majority of the premium we write;
- allow us to better understand our risks and exposures; and
- allow us to structure many of our contracts in such a way that that our clients participate in the loss experience of the underlying risks, which should align their interests with ours.

In addition to underwriting customized contracts, we may also, from time to time, participate in traditional reinsurance programs that we believe will provide us with favorable returns on equity. We intend to underwrite contracts only where we believe we can model, analyze and monitor our risks effectively. Our underwriters are responsible for contracts from origination until final disposition, including underwriting, pricing, servicing, monitoring and claims processing. We anticipate that this integrated approach will translate to superior contract management, better client service and superior economic returns over the long term.

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 third-party investment advisor that is compensated, in part, based upon the performance of our portfolio. As of March 31, 2007, 96.4% of our investments in securities was invested in publicly-traded equity securities primarily traded on exchanges in North America and Western Europe. DME Advisors, our investment advisor, 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, 2009, 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, it is not otherwise restricted with respect to the nature or timing of making investments for our account. The returns on our investment portfolio for the years ended December 31, 2005 and 2006 and the three-month period ended March 31, 2007 were 14.2%, 24.4% and (4.2)%, respectively. We note that past performance is not necessarily indicative of future results.

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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 based 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 began underwriting business in April 2006, once our senior underwriting team and infrastructure were in place. In August 2006, we received an A- (Excellent) financial strength rating with a stable outlook from A.M. Best, which is the fourth highest of 15 ratings A.M. Best issues. This rating reflects the rating agency'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.

For the year ended December 31, 2006, we generated earned premiums of \$26.6 million, net investment income of \$58.5 million, net income of \$57.0 million and incurred losses of \$9.7 million, of which \$4.7 million were paid. As of December 31, 2006, we had total shareholders' equity of \$312.2 million. For the three months ended March 31, 2007, we generated earned premiums of \$20.9 million, net investment loss of \$14.4 million, net loss of \$13.1 million and incurred losses of \$9.0 million, of which none were paid. As of March 31, 2007, we had total shareholders' equity of \$299.7 million.

Our combined ratio, which is the sum of our composite ratio and our internal expense ratio, for the three-month period ended March 31, 2007 and the year ended December 31, 2006 was 94.1% and 109.6%, respectively. The composite ratio is the ratio of underwriting losses incurred, loss adjustment expenses and acquisition costs, excluding general and administrative expenses, to premiums earned. The internal expense ratio is the ratio of all general and administrative expenses to premiums earned. For example, a combined ratio of 109.6% signifies a loss of \$0.096 per dollar of premiums earned. The reported combined ratio of 109.6% is high due to general and administrative expenses incurred in connection with start-up of our reinsurance operations. We expect our internal expense ratio to decrease significantly as we continue to expand our underwriting activities and expect over time that our general and administrative expenses will be two to three percent of capital.



Given our limited operating history, these results set forth in the preceding two paragraphs should not be relied upon as a basis for evaluating the potential success of our business strategy.

#### How We Are Different from Traditional Reinsurers

Our operations are designed to capitalize on inefficiencies that we perceive 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 premium we underwrite in an effort to obtain greater influence in negotiating pricing, terms and conditions rather than focusing on taking a minority participation in contracts that have been negotiated and priced by another party;
- we maintain a small staff of experienced generalist underwriters that are capable of underwriting many lines of property and casualty business rather than a large staff of underwriters, each with an individual, specific focus on certain lines of business;
- we implement a “cradle to grave” service philosophy where the same individual underwrites and administers each reinsurance contract rather than separating underwriting and administrative duties among many employees;

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- 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;
- we employ a value-oriented investment strategy and invest in long and short positions of equity and corporate debt securities in an effort to maximize investment returns while minimizing the risk of capital loss rather than investing predominantly in fixed-income securities that produce stable streams of income; and
- we have a long-term exclusive investment advisory agreement through December 31, 2009 that compensates the advisor with both an annual fee and a performance compensation fee rather than directly making our investments or employing one or more fixed-income managers that may be terminated upon short notice and receive a flat fee.

Because our underwriting and investment strategies differ from other participants in the property and casualty reinsurance market, you may not be able to directly compare our business or prospects with those of other property and casualty reinsurers. Our results from financial accounting period to period may vary significantly and may not be as predictable as many of our competitors'. However, we believe that our operational differences, particularly our focus on writing select, customized contracts, which we believe will allow us to better manage our underwriting risks, and our value-oriented investment strategy, which has the potential to generate higher rates of return than traditional fixed-income strategies, will enable us to generate, over the long term, returns on equity superior to those of traditional reinsurers.

## Market Trends and Opportunities

Extended periods of competitive pricing, increases in reserves, rating downgrades, higher than expected losses and rating agency changes in capital requirements for certain lines of business historically have caused capacity shortages in certain product lines in the property and casualty industry. These capacity shortages have created considerable cyclical increases in pricing and changes in terms and conditions that are significantly more favorable for reinsurers as clients may not be able to identify or locate reinsurers that are willing or able to reinsure their underwriting risks.

During the year ended December 31, 2006, we wrote \$74.2 million of premiums from nine contracts that ranged in size from \$0.5 million to \$58.1 million. During the three-month period ended March 31, 2007, we wrote \$38.1 million of gross premiums and wrote seven new contracts that ranged in size from \$0.1 million to \$14.2 million of gross premiums. A majority of these contracts have a one-year term, although we expect to pay losses on each of these contracts for a number of years. These reinsurance contracts provide coverage of casualty clash, homeowners', property catastrophe and marine risks. We anticipate that we will see attractive opportunities in casualty clash, homeowners', medical malpractice, workers' compensation, property catastrophe and marine lines in 2007. We believe that these lines of business will present us with opportunities for the following reasons:

- a limited number of reinsurers underwrite casualty clash reinsurance;
- in certain states, including Florida, a number of insurers are reducing their homeowners' writings, creating opportunity for the remaining insurers that, in turn, will require more reinsurance to mitigate their overall exposure;
- legislation in certain states, including tort reform and workers' compensation regulation, has resulted in attractive opportunities for medical malpractice and workers' compensation reinsurance; and
- there continues to be significant demand for property catastrophe and marine reinsurance.

Of the \$38.1 million in gross premiums written in the three-month period ended March 31, 2007 and the \$74.2 million in gross premiums written in 2006, 86.3% and 78.3% was frequency business and 13.7% and 21.7% was severity business, respectively. Our reinsurance coverage of homeowners', health, property catastrophe, medical malpractice and casualty clash accounted for 39.4%, 37.3%,

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12.4%, 9.6% and 1.3%, respectively, of our premiums written in the first quarter of 2007. Our reinsurance coverage of homeowners', property catastrophe, casualty clash and marine risks accounted for 78.3%, 13.3%, 5.9% and 2.5%, respectively, of our premiums written in 2006. Approximately 86.6% of our premiums written as of March 31, 2007 were written for risks located in the United States. Approximately 39.4% of the premiums written were written for homeowners' coverage in Florida, which excludes catastrophe events that cause industry insured losses of \$25 million or more.

We may also underwrite other lines of business, such as commercial auto and general liability, although we do not believe that we will see many attractive opportunities in these lines for the foreseeable future as there are many reinsurers currently competing for this type of business.

We intend to continue to monitor market conditions so as to be positioned to participate in future underserved or capacity-constrained markets as they arise and offer products that we believe will generate favorable returns on equity

over the long term. Accordingly, our underwriting results and product line concentrations in any given period may not be indicative of our future results of operations.

### Our Competitive Strengths

We believe we distinguish ourselves as follows:

- **Focus on Customized Products.** We focus on customized reinsurance solutions. In particular, we focus on business that is difficult for brokers to place, that is not already sold by brokers or that requires an innovative underwriting approach. We believe we differentiate ourselves by offering customized products at times and in markets where capacity and alternatives are limited. We may also participate in traditional reinsurance programs that we believe will provide us with favorable returns on equity over the long term.
- **Focus on Economic Results.** Our goal is to achieve attractive economic returns on every reinsurance contract we underwrite by focusing on our expected return on equity over the life of the contract, which may span many years, rather than focusing on yearly combined ratios or short-term considerations such as premium volume in any given period. Accordingly, unlike many of our competitors, we do not measure our economic success with respect to a contract in any given accounting period but rather after the final loss payments on the contract are made. Over time, we anticipate that the average loss duration on our contracts will be between 2.5 and 3.5 years. Our decision to underwrite a contract depends on our determination that the expected economic returns exceed our targeted return on equity. Our targeted return on equity varies with the degree of risk assumed and generally is at least equal to the risk-free rate plus 5.0%. In pricing our contracts during 2006 and the first quarter of 2007, and setting our targeted return on equity, we assumed a risk-free rate of 5.0%, rather than using our historical investment returns as a benchmark.
- **Non-traditional Investment Approach.** We employ a non-traditional investment approach that has the potential to generate a higher rate of return than traditional fixed-income investment strategies designed to produce stable streams of income. We take long positions in perceived undervalued securities and short positions in perceived overvalued securities in an effort to maximize investment returns while minimizing the risk of capital loss in both up and down markets. The returns on our investment portfolio for the years ended December 31, 2005 and 2006 and the three-month period ended March 31, 2007 were 14.2%, 24.4% and (4.2)%, respectively.
- **Alignment of Management and Shareholder Interests.** Our management incentive compensation plans are designed to align management and employee interests with those of our shareholders over the long term. The majority of payments under our cash bonus plan are based on the ultimate underwriting returns, not on underwriting profitability in any single year or the returns generated by our investment portfolio. As a result, we expect most of the cash bonus plan payments each year will be deferred for a multi-year period to reflect actual underwriting results as they develop.

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- **Experienced Management and Underwriting Team with Well-Established Market Relationships.** Our management team has a broad range of relevant skills and experiences in the reinsurance industry. Our Chief Executive Officer, Leonard Goldberg, has more than 22

years of industry experience, including substantial time as a chief actuary and as president of the North American operations of a major reinsurer. Our President and Chief Underwriting Officer, Barton Hedges, is an actuary with 20 years of industry experience and was the president and chief operating officer of the Bermudian operations of a major reinsurer. Our underwriting team has knowledge, experience and relationships with many brokers in the United States, Europe and Bermuda.

- **Financial Strength.** We currently have no debt in our capital structure. In August 2006, we received an A- (Excellent) financial strength rating with a stable outlook from A.M. Best, which is the fourth highest of 15 ratings A.M. Best issues. This rating reflects the rating agency's opinion of our financial strength, operating performance and ability to meet obligations and is not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our Class A Ordinary Shares.

#### Our Strategy

We seek to maximize sustainable long-term growth in book value by pursuing the following strategies:

- **Selectively Underwrite Reinsurance Risks.** With the use of actuarial models that we produce and the application of our underwriting guidelines, we employ a strict underwriting discipline in an attempt to identify and select reinsurance opportunities with favorable returns on equity before we commit our capital. We focus on property and casualty lines of business that we believe are underserved or are capacity constrained in an effort to take advantage of capacity shortages when and where they occur. We are developing an underwriting portfolio of frequency and severity contracts where each transaction is important to both our client and us. By maintaining a focused and customized underwriting approach, we believe we will be able to understand our risks and exposures better than our competitors. Our underwriting strategy is driven by our goal to produce superior long-term growth in book value per share, rather than by pursuing short-term premium production targets.
- **Operate as a Lead Underwriter on the Majority of the Premium that We Underwrite.** Due to the customized nature of our business strategy, we anticipate that the majority of our reinsurance contracts will be sizeable and require significant interaction among clients, brokers and ourselves. In 2006, we bound nine reinsurance contracts and wrote an aggregate of \$74.2 million of gross premiums. In the three-month period ended March 31, 2007, we bound seven contracts and wrote an aggregate of \$38.1 million of gross premiums. We have a strong preference to be the lead underwriter of a majority of the premium that we underwrite, which we believe allows us to influence the pricing, terms and conditions of the business we write and, accordingly, better enables us to meet or exceed our targeted return on equity. We were the lead underwriter for all of our contracts bound in 2006 and on four of the seven contracts bound in the three-month period ended March 31, 2007. Although we seek to be the lead underwriter for the majority of the aggregate premium that we underwrite, we may participate in non-lead positions when we believe the opportunity offers compelling returns on equity.
- **Manage Capital Prudently.** We seek to manage our capital prudently with respect to our underwriting and capital financing activities. We model, analyze and monitor our underwriting activities, which are subject to written underwriting guidelines and regularly reviewed by the Underwriting Committee of our Board of Directors. Each reinsurance contract we underwrite must satisfy minimum expected returns on equity. We utilize a capital allocation model that requires us to allocate substantially more capital for contracts with larger potential for loss in an effort to not overexpose our capital. Our underwriting decision-making is centralized and our Chief Underwriting Officer must approve each

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contract that we execute. Additionally, we occasionally may purchase reinsurance of the liabilities we reinsure, or retrocessional coverage, in an effort to protect our invested capital in a transaction. Retrocessional coverage is typically acquired to mitigate the effect of a potential concentration of losses. DME Advisors manages our investment portfolio subject to our investment guidelines and oversight by our Board of Directors. Our investment strategy attempts to maximize returns while limiting the risk of capital loss; the investment portfolio is comprised of both long and short securities in an attempt to partially hedge overall market exposure. Further, our investment guidelines provide for minimal use of leverage. Finally, we currently employ no debt in our capital structure. We believe our strategy to monitor and manage the uses for our capital will enable us to maintain our A- (Excellent) rating from A.M. Best.

- **Employ a Differentiated Investment Approach.** We manage our investment portfolio pursuant to a value-oriented philosophy and invest primarily in long and short positions in publicly-traded securities. This approach is intended to provide us with flexibility in managing our reinsurance business and the ability to maximize the returns on our investment portfolio. We believe that our investing approach may be more volatile but will achieve higher rates of return over the long term than traditional fixed-income investment strategies that are employed by most reinsurers and designed to produce stable streams of income.
- **Maintain a Centralized Operating Structure.** We believe that our centralized management structure allows us to identify and quickly respond to market opportunities and should allow us to capitalize on attractive opportunities more efficiently than our competitors and provide superior client service.

**Reinsurance Risks to Be Written**

We intend to underwrite reinsurance contracts with favorable long-term returns on equity as opportunities arise. We will attempt to select the most economically attractive opportunities across a variety of all property and casualty lines of business.

Reinsurance is an arrangement under which an insurance company or reinsurer agrees to indemnify or assume the obligations of another insurance company, or client, for all or a portion of the insurance risks underwritten by the client. It is standard industry practice for primary insurers to reinsure portions of their insurance risks with other insurance companies under reinsurance agreements or contracts. This permits primary insurers to underwrite policies in amounts larger than the risks they are willing to retain. Reinsurance is generally designed to:

- reduce the client's net liability on individual risks, thereby assisting it in increasing its capacity to underwrite business as well as increasing the limit to which it can underwrite on a single risk;
- assist the client in meeting applicable regulatory and rating agency capital requirements;
- assist the client in reducing the short-term financial impact of sales and other acquisition costs; and
- enhance the client's financial strength and statutory capital.

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.

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Severity business is typically characterized by contracts with the potential for significant losses emanating from one event. 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 our frequency business.

We anticipate that the average loss duration of our contracts will be between 2.5 and 3.5 years.

We expect to act as lead underwriter for the majority of total premium we underwrite. Depending on the mix of our frequency and severity business, we expect that, over time, our annual premiums written will be equal to 0.5 to 1.0 times our capital. Our goal is to work closely with our clients to provide customized reinsurance solutions that often contain non-standard provisions to allow us to offer a tailored approach to underwriting. As a result, most contracts we underwrite uniquely focus on particular client needs while maintaining an attractive return on equity for us.

In addition, some of the risks we intend to underwrite will reflect traditional opportunities in reinsurance where we will participate in a larger underwriting syndicate, where we believe the return on equity over the long term will exceed our internal targeted return on equity.

Our targeted return on equity varies with the degree of risk assumed on the contract underwritten, but is equal to at least the sum of an assumed risk-free rate plus 5.0%. In pricing our contracts in 2006 and the three-month period ended March 31, 2007, and setting our targeted return on equity, we assumed investment returns would equal a risk-free rate of 5.0%, rather than using our historical investment returns as a benchmark.

## Products

Our experienced, generalist underwriting team allows us to offer a range of property and casualty reinsurance products, including, but not limited to, casualty and liability risks, casualty clash, damage, health, homeowners', medical malpractice, professional liability, property catastrophe, surety and fidelity and workers' compensation.

Our nine reinsurance contracts bound in 2006 provide coverage of homeowners', property catastrophe, casualty clash and marine risks, which accounted for 78.3%, 13.3%, 5.9% and 2.5%, respectively, of our premiums written. Our seven contracts bound in the three-month period ended March 31, 2007 provide coverage of homeowners', health, property catastrophe, medical malpractice and casualty clash accounted for 39.4%, 37.3%, 12.4%, 9.6% and 1.3%, respectively, of our premiums written.

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 capacity constrained;

- employ strict underwriting discipline;
- select reinsurance opportunities with favorable returns on equity over the life of the contract; and
- potentially offer lines that are not identified in this prospectus.

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Global Reinsurance — Premiums Written by Geographic Area

	March 31, 2007	December 31, 2006
USA.	86.6%	86.9%
Worldwide <sup>(1)</sup>	13.1	5.9
Europe	—	4.8
Japan	—	1.8
Caribbean	0.3	0.6
Total	100.0%	100.0%

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

Marketing and Distribution

We expect that the majority of our business will be 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. From time to time, we may also enter into relationships with managing general agents who could bind us to reinsurance contracts based on narrowly defined underwriting guidelines.

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.

Our objective is to build long-term relationships with key reinsurance brokers, such as Access Reinsurance, Inc., Aon Re Worldwide, Inc., Benfield Group Limited, Guy Carpenter & Company, Inc., and Willis Group Holdings, Ltd., and with our clients. We believe that we have established good relationships with these brokers.

The following table sets forth our premiums written by brokers as of the three-month period ended March 31, 2007 and the year ended December 31, 2006:

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Name of Broker	March 31, 2007		December 31, 2006	
	Premiums written	Percentage of total	Premiums written	Percentage of total
	(\$ in thousands)			
Access Reinsurance, Inc.	\$ —	—%	\$ 4,000	5.4%
Aon Ltd. (London)	2,872	7.6	5,375	7.2
Frontline Insurance Managers, Inc. <sup>(1)</sup>	15,000	39.4	58,063	78.3
ReSource Intermediaries, Inc.	3,543	9.3	—	—
Risk & Insurance Consulting, Inc.	14,205	37.3	—	—
Other	2,444	6.4	6,713	9.1
Total	\$ 38,064	100.0%	\$ 74,151	100.0%

<sup>(1)</sup>Frontline Insurance Managers, Inc. is a related party of First Protective Insurance Company, the counterparty to our largest contract bound in 2006, which contract constituted \$15.0 million, or 39.4%, and \$58.1 million, or 78.3%, of our gross premiums written in the three-month period ended March 31, 2007 and the year ended December 31, 2006, respectively.

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.

In addition, we expect the large number of captive insurance companies located in the Cayman Islands to be an important source of business for us in the future. We expect 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 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 equal to the risk-free rate, which we intend to review and adjust, if necessary, on an annual basis. As of the date hereof, we assume a risk-free rate of 5.0%.

## 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.

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### 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.

### Act as Lead Underwriter

Typically, one reinsurer acts as the lead in negotiating principal policy terms and pricing of reinsurance contracts. We plan to act as the lead underwriter for the majority of the aggregate premium that we underwrite. We believe that lead underwriting is an important factor in achieving long-term success, as lead underwriters 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 every contract we underwrite aligns our interests with our client's interest. 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 pre-determined

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.

During the three-month period ended March 31, 2007 and the year ended December 31, 2006, profit commission expenses totaled \$1.5 million and \$3.3 million, respectively, and were reported in the income statement under the caption acquisition costs. During the three-month period ended March 31, 2007 and the year ended December 31, 2006, losses and loss adjustment expenses incurred totaled \$9.0 million and \$9.7 million, respectively. Subsequent adjustments to our loss reserves for these contracts may result in corresponding adjustments to profit commission and other participating features based upon the structure of the contract, the level of losses accounted for in our financial statements and the timing of the subsequent changes. Typically, the amount of profit commission expense is not significant when compared to losses incurred in any given year. However, as of March 31, 2007, profit commissions payable are high relative to our reserves in part due to low property catastrophe losses, as all of our property catastrophe contracts have profit commissions. We do not expect profit commissions to be as material when compared to losses incurred in future periods.

#### 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.

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##### Detailed Contract Diligence

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

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

##### Underwriting Authorities

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

#### Retrocessional Coverage

We may from time to time purchase retrocessional coverage to manage our overall exposure and to balance our 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 or an equivalent rating from Standard & Poor's Rating Services.

#### Capital Allocation

We expect to 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, although we will use a standard risk-free interest rate. As of the date hereof, we assume a risk-free rate of 5.0%.

#### 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. Our Chief Financial Officer must also approve all cash disbursements.

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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.

#### 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. Starting in 2007, outside actuaries will 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/Letter of Credit Facility

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. We have obtained a letter of credit facility from Citibank, N.A. in a maximum amount of \$200 million. As of March 31, 2007, we have issued letters of credit totaling \$65.6 million to clients. The failure to maintain, replace or increase our letter of credit facility 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 expect to 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 are ACE Limited, General Re Corporation, Hannover Re Group, Munich Reinsurance Company, PartnerRe Ltd., Swiss Reinsurance Company, Transatlantic Reinsurance Company and XL Capital Ltd., 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 from time to time.

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While we have a limited operating history, we believe that our unique approach to underwriting will allow us to be successful in underwriting transactions against more established competitors. Also, as the first global market reinsurer in the Cayman Islands to provide third party reinsurance coverage, as opposed to captive reinsurance arrangements, we believe we have a competitive advantage when competing for business of Cayman-based captive insurance companies.

## 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.

## Advisory Agreement

We have entered into the advisory agreement with DME Advisors. Pursuant to the terms of 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 fee, regardless of the performance of our investment account, payable monthly based on the net asset value of our investment account, excluding assets, 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 a reduced incentive fee of 10% on profits in any year subsequent to the year in which our investment account managed by DME Advisors 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 a reduced incentive fee on subsequent years to the extent it generates profits for our investment portfolio in such years.

The advisory agreement requires that DME Advisors follow our investment guidelines and act in a manner that it considers fair and equitable in allocating investment opportunities to us, but does 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 subadvisors 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 Masters, L.P., Greenlight Masters Qualified, L.P., Greenlight Masters Offshore, Ltd. and Greenlight Masters Offshore I, Ltd., which we refer to as the Greenlight Funds. Each of the Greenlight Funds utilizes an investment strategy that may compete

with our investment strategy.

The advisory agreement provides that DME Advisors and its principals, employees or agents are not liable to us or our shareholders for any acts or omissions in the performance of their services in the absence of:

- willful misconduct, gross negligence, reckless disregard of any of their obligations under the advisory agreement. Additionally, the advisory agreement contains provisions for the indemnification of DME Advisors by us against certain liabilities to third parties arising in connection with the performance of its services to us;

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- breaches of our investment guidelines that are not cured within 15 days of the day on which DME Advisors becomes aware of the breach; or
- the failure by DME Advisors to timely return or deliver assets to us if so requested.

We have agreed to use commercially reasonable efforts to cause all of our respective 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. In addition, we have agreed that we will, at the written request of DME Advisors 90 days prior to any January 1 during the term of the advisory agreement, amend the advisory agreement so as to transform this agreement into a joint venture or partnership between us and DME Advisors so long as the creation of a joint venture or partnership does not, in the opinion of our legal counsel, create any material adverse tax, legal or regulatory consequences to us.

The advisory agreement term is January 1, 2007 through December 31, 2009 and will automatically renew for successive three-year terms unless we or DME notify the other party at least 90 days prior to the end of the three-year 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.

### Investment Strategy

Our investment portfolio is managed by DME Advisors. DME Advisors is an investment advisor that 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.

Our investment guidelines are designed to maintain adequate liquidity to fund our reinsurance operations and to protect against unexpected events.

Under the advisory agreement, 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, arbitrages, bank loan participations, derivatives (including options, warrants and swaps), leases, break-ups, consolidations, reorganizations, limited partnerships and similar securities of foreign issuers.

David Einhorn manages DME Advisors, as well as Greenlight Capital, Inc. and its affiliates, a value-oriented investment advisor founded in 1996 with over \$4 billion under management as of December 31, 2006. Our investment guidelines, which DME Advisors is contractually obligated to follow, may diverge significantly from the guidelines followed by Greenlight Capital, Inc. and its affiliates.

### 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

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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 equivalent or United States government obligations.
- **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% margin leverage for periods of less than 30 days.

### Investment Results

### Composition

Our investment portfolio managed by DME Advisors contains investments in securities, cash and funds held with brokers, swaps and securities sold, not yet purchased. The following table represents the total long positions as reported in the financial statements as of March 31, 2007 and December 31, 2006 and 2005:

	Fair value as of		Fair value as of		Fair value as of	
	March 31, 2007		December 31, 2006		December 31, 2005	
	\$ in thousands	% of total	\$ in thousands	% of total	\$ in thousands	% of total
Fixed income	\$ 770	0.2%	\$ —	—%	\$ 238	0.1%
Equities – listed	250,337	74.5	238,799	69.7	216,702	93.3
Equities – unlisted	7,494	2.2	4,004	1.2	1,777	0.8
Options	1,161	0.4	719	0.2	494	0.2
Investments in securities	259,762	77.3	\$ 243,522	71.1%	\$ 219,211	94.4%
Cash and funds held with brokers	99,820	29.7	107,859	31.4	13,834	5.9
Swaps	(23,532)	(7.0)	(8,640)	(2.5)	(722)	(0.3)
Total long investments	\$ 336,050	100.0%	\$ 342,741	100.0%	\$ 232,323	100.0%

The following table represents the total short positions as reported in the financial statements as of March 31, 2007 and December 31, 2006 and 2005:

	Fair value as of		Fair value as of		Fair value as of	
	March 31, 2007		December 31, 2006		December 31, 2005	
	\$ in thousands	% of total	\$ in thousands	% of total	\$ in thousands	% of total
Equities – listed	\$ 141,762	99.4%	\$ 124,043	100.0%	\$ 87,075	99.5%
Derivatives and other	844	0.6	1	—	443	0.5
Total short investments	\$ 142,606	100.0%	\$ 124,044	100.0%	\$ 87,518	100.0%

DME Advisors also reports the composition of our total managed portfolio on a notional exposure basis, which it believes is the appropriate manner in which to assess the exposure and profile

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of investments and is the way in which it manages the portfolio. Under this methodology, the exposure for swaps and futures contracts are reported at their full notional amount. The notional amount of a derivative contract is the underlying value upon which payment obligations are computed and 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 March 31, 2007 and December 31, 2006 and 2005:



	As of		As of		As of	
	March 31, 2007		December 31, 2006		December 31, 2005	
	Long %	Short %	Long %	Short %	Long %	Short %
Fixed income	0.3%	0.0%	0.0%	0.0%	0.1%	0.0%
Equities & related derivatives	79.5	(42.3)	82.4	(41.5)	99.1	(46.8)
Equity – unlisted	2.2	0.0	1.2	0.0	0.0	0.0
Other investments	1.1	(5.2)	1.1	0.0	0.0	0.0
Total	83.1%	(47.5)%	84.7%	(41.5)%	99.2%	(46.8)%

#### Investment Returns

A summary of our consolidated net investment income for the three-month period ended March 31, 2007, the years ended December 31, 2006 and 2005 and the period from July 13, 2004 to December 31, 2004 is as follows (\$ in thousands):