GREENLIGHT CAPITAL RE, LTD.
Form 10-Q
August 04, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

or

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

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

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

CAYMAN ISLANDS	N/A
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

65 MARKET STREET SUITE 1207, CAMANA BAY P.O. BOX 31110 GRAND CAYMAN CAYMAN ISLANDS	KY1-1205
(Address of principal executive offices)	(Zip code)

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

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

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

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

Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

Class A Ordinary Shares, $0.10 par value	31,048,399
Class B Ordinary Shares, $0.10 par value	6,254,895
(Class)	Outstanding as of August 1, 2014

GREENLIGHT CAPITAL RE, LTD.

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

June 30, 2014 and December 31, 2013
(expressed in thousands of U.S. dollars, except per share and share amounts)

	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Assets		
Investments		
Debt instruments, trading, at fair value	$4,600	$4,312
Equity securities, trading, at fair value	1,321,426	1,282,156
Other investments, at fair value	174,432	107,211
Total investments	1,500,458	1,393,679
Cash and cash equivalents	5,693	3,722
Restricted cash and cash equivalents	1,318,823	1,334,074
Financial contracts receivable, at fair value	97,458	104,048
Reinsurance balances receivable	145,329	167,340
Loss and loss adjustment expenses recoverable	12,848	16,829
Deferred acquisition costs, net	32,259	51,797
Unearned premiums ceded	5,635	3,173
Notes receivable	4,261	16,049
Other assets	8,072	4,565
Total assets	$3,130,836	$3,095,276
Liabilities and equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$1,102,298	$1,111,690
Financial contracts payable, at fair value	22,449	18,857
Due to prime brokers	311,130	314,702
Loss and loss adjustment expense reserves	303,097	329,894
Unearned premium reserves	120,619	173,057
Reinsurance balances payable	43,901	38,789
Funds withheld	8,600	10,126
Other liabilities	9,502	11,857
Performance compensation payable to related party	24,045	—
Total liabilities	1,945,641	2,008,972
Equity		
Preferred share capital (par value $0.10; authorized, 50,000,000; none issued)	—	—
Ordinary share capital (Class A: par value $0.10; authorized, 100,000,000; issued and outstanding, 31,040,417 (2013: 30,791,865): Class B: par value $0.10; authorized, 25,000,000; issued and outstanding, 6,254,895 (2013: 6,254,949))	3,729	3,705
Additional paid-in capital	498,439	496,622
Retained earnings	651,940	551,268
Shareholders’ equity attributable to shareholders	1,154,108	1,051,595
Non-controlling interest in joint venture	31,087	34,709

Total equity	1,185,195	1,086,304
Total liabilities and equity	$3,130,836	$3,095,276

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

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

For the three and six months ended June 30, 2014 and 2013
(expressed in thousands of U.S. dollars, except per share and share amounts)

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Revenues				
Gross premiums written	$33,654	$135,198	$152,555	$262,162
Gross premiums ceded	(2,759)	(2,514)	(8,699)	1,464
Net premiums written	30,895	132,684	143,856	263,626
Change in net unearned premium reserves	56,960	316	55,688	(21,155)
Net premiums earned	87,855	133,000	199,544	242,471
Net investment income	113,932	24,247	103,782	85,386
Other income (expense), net	(18)	(488)	423	(100)
Total revenues	201,769	156,759	303,749	327,757
Expenses				
Loss and loss adjustment expenses incurred, net	56,644	78,345	124,007	144,623
Acquisition costs, net	25,570	42,936	63,366	84,232
General and administrative expenses	6,941	5,943	13,400	9,703
Total expenses	89,155	127,224	200,773	238,558
Income before income tax expense	112,614	29,535	102,976	89,199
Income tax (expense) benefit	14	(142)	574	(450)
Net income including non-controlling interest	112,628	29,393	103,550	88,749
Income attributable to non-controlling interest in joint venture	(3,075)	(893)	(2,878)	(3,516)
Net income	$109,553	$28,500	$100,672	$85,233
Earnings per share				
Basic	$2.94	$0.77	$2.71	$2.32
Diluted	$2.89	$0.76	$2.66	$2.27
Weighted average number of ordinary shares used in the determination of earnings per share				
Basic	37,246,922	36,830,046	37,161,818	36,780,438
Diluted	37,902,106	37,537,500	37,843,013	37,481,162

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

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

For the six months ended June 30, 2014 and 2013
(expressed in thousands of U.S. dollars)

	Ordinary share capital	Additional paid-in capital	Retained earnings	Shareholders' equity attributable to shareholders	Non-controlling interest in joint venture	Total equity
Balance at December 31, 2012	$3,670	$492,469	$325,569	$821,708	$ 38,702	$860,410
Issue of Class A ordinary shares, net of forfeitures	17	443	—	460	—	460
Share-based compensation expense, net of forfeitures	—	1,597	—	1,597	—	1,597
Non-controlling interest withdrawal from joint venture, net	—	—	—	—	(10,000)	(10,000)
Income attributable to non-controlling interest in joint venture	—	—	—	—	3,516	3,516
Net income	—	—	85,233	85,233	—	85,233
Balance at June 30, 2013	$3,687	$494,509	$410,802	$908,998	$ 32,218	$941,216
Balance at December 31, 2013	$3,705	$496,622	$551,268	$1,051,595	$ 34,709	$1,086,304
Issue of Class A ordinary shares, net of forfeitures	24	—	—	24	—	24
Share-based compensation expense, net of forfeitures	—	1,817	—	1,817	—	1,817
Non-controlling interest withdrawal from joint venture, net	—	—	—	—	(6,500)	(6,500)
Income attributable to non-controlling interest in joint venture	—	—	—	—	2,878	2,878
Net income	—	—	100,672	100,672	—	100,672
Balance at June 30, 2014	$3,729	$498,439	$651,940	$1,154,108	$ 31,087	$1,185,195

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

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
For the six months ended June 30, 2014 and 2013
(expressed in thousands of U.S. dollars)

	Six months ended June 30	
	2014	2013
Cash provided by (used in) operating activities		
Net income	$100,672	$85,233
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Net change in unrealized gains and losses on investments and financial contracts	36,657	(19,436)
Net realized gains on investments and financial contracts	(170,853)	(91,978)
Foreign exchange (gains) losses on restricted cash and cash equivalents, net	4,127	(18,897)
Income attributable to non-controlling interest in joint venture	2,878	3,516
Share-based compensation expense, net of forfeitures	1,841	1,610
Depreciation expense	229	125
Net change in		
Reinsurance balances receivable	22,011	1,372
Loss and loss adjustment expenses recoverable	3,981	14,315
Deferred acquisition costs, net	19,538	(4,535)
Unearned premiums ceded	(2,462)	715
Other assets	(3,736)	(2,835)
Loss and loss adjustment expense reserves	(26,797)	(54,611)
Unearned premium reserves	(52,438)	19,541
Reinsurance balances payable	5,112	15
Funds withheld	(1,526)	(7,231)
Other liabilities	(2,355)	(582)
Performance compensation payable to related party	24,045	21,923
Net cash used in operating activities	(39,076)	(51,740)
Investing activities		
Purchases of investments, trading	(642,856)	(386,521)
Sales of investments, trading	758,103	635,958
Purchases of financial contracts	(14,155)	(34,309)
Dispositions of financial contracts	23,262	52,556
Securities sold, not yet purchased	417,348	448,095
Dispositions of securities sold, not yet purchased	(513,495)	(424,843)
Change in due to prime brokers	(3,572)	(76,760)
Change in restricted cash and cash equivalents, net	11,124	(346)
Change in notes receivable, net	11,788	3,411
Non-controlling interest withdrawal from joint venture	(6,500)	(10,000)
Net cash provided by investing activities	41,047	207,241
Financing activities		
Net proceeds from exercise of stock options	—	447
Net cash provided by financing activities	—	447
Net increase in cash and cash equivalents	1,971	155,948

Cash and cash equivalents at beginning of the period	3,722	21,890
Cash and cash equivalents at end of the period	$5,693	$177,838
Supplementary information		
Interest paid in cash	$13,819	$15,555
Interest received in cash	268	558
Income tax paid in cash	—	—

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

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

June 30, 2014

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

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

The results for the six months ended June 30, 2014 are not necessarily indicative of the results expected for the full calendar year.

Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation. The reclassifications resulted in no changes to net income or retained earnings for any of the periods presented.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Restricted Cash and Cash Equivalents

The Company is required to maintain certain cash in segregated accounts with prime brokers and derivative counterparties. The amount of restricted cash held by prime brokers is primarily used to support the liability created from securities sold, not yet purchased, and to collateralize the letters of credit issued under certain letter of credit facilities (see

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Notes 4 and 8). The amount of cash encumbered varies depending on the market value of the securities sold, not yet purchased, and letters of credit issued. In addition, derivative counterparties require cash collateral to support the current value of any amounts that may be due to the counterparty based on the value of the underlying financial instrument.

Deferred Acquisition Costs

Policy acquisition costs, such as commission and brokerage costs, relate directly to, and vary with, the writing of reinsurance contracts. Acquisition costs relating solely to bound contracts are deferred subject to ultimate recoverability and are amortized over the related contract term. The Company evaluates the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment income is greater than the expected future claims and expenses. If a loss is probable on the unexpired portion of policies in force, a premium deficiency loss is recognized. At June 30, 2014 and December 31, 2013, the deferred acquisition costs were considered fully recoverable and no premium deficiency loss was recorded.

Acquisition costs also include profit commissions, which are expensed when incurred. Profit commissions are calculated and accrued based on the expected loss experience for contracts and recorded when the current loss estimate indicates that a profit commission is probable under the contract terms. As of June 30, 2014, $11.8 million (December 31, 2013: $10.5 million) of profit commission reserves were included in reinsurance balances payable on the condensed consolidated balance sheets. For the three and six months ended June 30, 2014, $0.5 million and $1.4 million, respectively (2013: $0.4 million and $1.3 million, respectively) of net profit commission expense was included in acquisition costs on the condensed consolidated statements of income.

Loss and Loss Adjustment Expense Reserves and Recoverable

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

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

Notes Receivable

Notes receivable include promissory notes receivable from third party entities. These notes are recorded at cost along with accrued interest, if any, which approximates the fair value. The Company regularly reviews all notes receivable individually for impairment and records provisions for uncollectible and non-performing notes. The Company places notes on non-accrual status when the value of the note is not considered impaired but there is uncertainty as to the collection of interest based on the terms of the note. The Company resumes accrual of interest on a note when none of the principal or interest remains past due, and the Company expects to collect the remaining contractual principal and interest. Interest collected on notes that are placed on non-accrual status is treated on a cash-basis and recorded as

interest income when collected, provided that the recorded value of the note is deemed to be fully collectible. Where doubt exists as to the collectability of the remaining recorded value of the notes placed on non-accrual status, any payments received are applied to reduce the recorded value of the notes.

At June 30, 2014, there were no notes receivable placed on non-accrual status (December 31, 2013: $10.5 million). During the six months ended June 30, 2013, the Company had recorded an impairment charge of $5.9 million relating to the accrued interest and principal on a note placed on non-accrual status. During the second quarter of 2014, the Company sold this note receivable to a third party for a gain of $4.5 million. There were no other impairment charges for the three and six months ended June 30, 2014 and 2013.

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For the six months ended June 30, 2014, the notes receivable earned interest at annual interest rates ranging from 13.5% to 16.0% and had remaining maturity terms of one year. Interest income and realized gains or losses on sale of notes receivable are included under net investment income in the condensed consolidated statements of income. Impairment charges are also included under net investment income in the condensed consolidated statements of income.

At June 30, 2014, included in the notes receivable balance was $0.1 million of accrued interest (December 31, 2013: $0.1 million). Based on management's assessment, the recorded values of the notes receivable, net of valuation allowance, at June 30, 2014 and December 31, 2013, were expected to be fully collectible and therefore no other provision for uncollectible amounts was deemed necessary at June 30, 2014 or December 31, 2013.

Deposit Assets and Liabilities

In accordance with U.S. GAAP, deposit accounting is used in the event that a reinsurance contract does not transfer sufficient insurance risk, or a contract provides retroactive reinsurance. Any losses on such contracts are charged to earnings immediately. Any gains relating to such contracts are deferred and amortized over the estimated remaining settlement period. All such deferred gains are included in reinsurance balances payable in the condensed consolidated balance sheets. Amortized gains are recorded in the condensed consolidated statements of income as other income. At June 30, 2014, included in the condensed consolidated balance sheets under reinsurance balances receivable were $1.5 million (December 31, 2013: $1.6 million) of deposit assets. For the three and six months ended June 30, 2014, there was $0.0 million and $0.1 million, respectively, included in other income relating to losses on deposit accounted contracts (2013: $0.5 million and $0.5 million, respectively). For the three and six months ended June 30, 2014 and 2013, there was no gain on deposit accounted contracts recorded.

Fixed Assets

Fixed assets are included in other assets on the condensed consolidated balance sheets and are recorded at cost when acquired. Fixed assets are comprised of computer software, furniture and fixtures and leasehold improvements and are depreciated, using the straight-line method, over their estimated useful lives, which are five years for both computer software, and furniture and fixtures. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or remaining lease term. The Company periodically reviews fixed assets that have finite lives, and that are not held for sale, for impairment by comparing the carrying value of the assets to their estimated future undiscounted cash flows. For the six months ended June 30, 2014 and 2013, there were no impairments in fixed assets.

At June 30, 2014, the cost, accumulated depreciation and net book values of the fixed assets were as follows:

	Cost	Accumulated depreciation	Net book value
	($ in thousands)		
Computer software	$556	$(242)	$314
Furniture and fixtures	620	(402)	218
Leasehold improvements	2,002	(834)	1,168
Total	$3,178	$(1,478)	$1,700

At December 31, 2013, the cost, accumulated depreciation and net book values of the fixed assets were as follows:

Cost

	($ in thousands)	Accumulated depreciation	Net book value
Computer software	$556	$(206)	$350
Furniture and fixtures	620	(340)	280
Leasehold improvements	2,002	(703)	1,299
Total	$3,178	$(1,249)	$1,929

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Financial Instruments

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

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

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

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

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

Derivative Financial Instruments

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

Financial Contracts

The Company enters into financial contracts with counterparties as part of its investment strategy. Financial contracts which include total return swaps, credit default swaps ("CDS"), futures, options, currency forwards and other derivative instruments are recorded at their fair value with any unrealized gains and losses included in net investment income (loss) in the consolidated statements of income. Financial contracts receivable represents derivative contracts whereby, based upon the contract's current fair value, the Company will be entitled to receive payments upon settlement of the contract. Financial contracts payable represents derivative contracts whereby, based upon the contract's current fair value, the Company will be obligated to make payments upon settlement of the contract.

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

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based on interest rates, dividend payments and receipts, or foreign exchange movements during a specified period. The Company measures its rights or obligations to the counterparty based on the fair value movements of the underlying security together with any other payments due. These contracts are carried at fair value, based on observable inputs (Level 2 inputs) with the resultant unrealized gains and losses reflected in net investment income (loss) in the condensed consolidated statements of income. Additionally, any changes in the value of amounts received or paid on swap contracts are reported as a gain or loss in net investment income (loss) in the condensed consolidated statements of income.

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

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

Comprehensive Income (Loss)

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

Earnings (Loss) Per Share

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Weighted average shares outstanding - basic	37,246,922	36,830,046	37,161,818	36,780,438
Effect of dilutive service provider share-based awards	13,821	148,142	13,796	146,862
	641,363	559,312	667,399	553,862

Effect of dilutive employee and director share-based awards				
Weighted average share outstanding - diluted	37,902,106	37,537,500	37,843,013	37,481,162
Anti-dilutive stock options outstanding	40,000	180,000	40,000	180,000

Taxation

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

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

Verdant is incorporated in Delaware and therefore is subject to taxes in accordance with the U.S. federal rates and regulations prescribed by the U.S. Internal Revenue Service ("IRS"). Verdant’s taxable income is generally expected to be taxed at a rate of 35%.

GRIL is incorporated in Ireland and therefore is subject to the Irish corporation tax rate of 12.5% on its trading income, and 25% on its non-trading income, if any.

Any deferred tax asset is evaluated for recovery and a valuation allowance is recorded when it is more likely than not that the deferred tax asset will not be realized in the future. The Company has not taken any income tax positions that are subject to significant uncertainty or that are reasonably likely to have a material impact on the Company.

Recently Adopted Accounting Standards

None.

3. FINANCIAL INSTRUMENTS

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

Fair Value Hierarchy

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

The following table presents the Company’s investments, categorized by the level of the fair value hierarchy as of June 30, 2014:

	Fair value measurements as of June 30, 2014			
Description	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:	($ in thousands)			
Debt instruments	$—	$3,999	$601	$4,600
Listed equity securities	1,321,426	—	—	1,321,426
Commodities	123,605	—	—	123,605
Private and unlisted equity securities	—	—	50,827	50,827
Financial contracts receivable	—	97,458	—	97,458
	$1,445,031	$101,457	$51,428	$1,597,916
Liabilities:				
Listed equity securities, sold not yet purchased	$(898,476)	$—	$—	$(898,476)
Debt instruments, sold not yet purchased	—	(203,822)	—	(203,822)

Financial contracts payable	(501)	(21,948)	—	(22,449)
	$(898,977)	$(225,770)	$—	$(1,124,747)

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The following table presents the Company's investments, categorized by the level of the fair value hierarchy as of December 31, 2013:

Description	Fair value measurements as of December 31, 2013 Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:	($ in thousands)			
Debt instruments	$—	$3,785	$527	$4,312
Listed equity securities	1,274,920	7,236	—	1,282,156
Commodities	60,888	—	—	60,888
Private and unlisted equity securities	—	—	46,323	46,323
Financial contracts receivable	4,500	99,548	—	104,048
	$1,340,308	$110,569	$46,850	$1,497,727
Liabilities:				
Listed equity securities, sold not yet purchased	$(917,123)	$—	$—	$(917,123)
Debt instruments, sold not yet purchased	—	(194,567)	—	(194,567)
Financial contracts payable	—	(18,857)	—	(18,857)
	$(917,123)	$(213,424)	$—	$(1,130,547)

The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2014:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three months ended June 30, 2014			Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Six months ended June 30, 2014		
	Debt instruments	Private and unlisted equity securities	Total	Debt instruments	Private and unlisted equity securities	Total
	($ in thousands)			($ in thousands)		
Beginning balance	$604	$45,815	$46,419	$527	$46,323	$46,850
Purchases	—	1,134	1,134	—	2,071	2,071
Sales	—	(104)	(104)	—	(2,061)	(2,061)
Issuances	—	—	—	—	—	—
Settlements	—	—	—	—	—	—
Total realized and unrealized gains (losses) included in earnings, net	(3)	3,982	3,979	74	4,494	4,568
Transfers into Level 3	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—
Ending balance	$601	$50,827	$51,428	$601	$50,827	$51,428

During the three and six months ended June 30, 2014, no securities, at fair value based on the date of transfer, were transferred into or out of Level 3. During the six months ended June 30, 2014, $10.0 million of securities at fair value based on the date of transfer, were transferred from Level 2 to Level 1 as the lock-up period restrictions on those securities expired. There were no other transfers between Level 1, Level 2 or Level 3 during the three and six months ended June 30, 2014.

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three months ended June 30, 2013			Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Six months ended June 30, 2013		
	Debt instruments	Private and unlisted equity securities	Total	Debt instruments	Private and unlisted equity securities	Total
	($ in thousands)			($ in thousands)		
Beginning balance	$2,666	$56,044	$58,710	$260	$38,801	$39,061
Purchases	2,188	9,936	12,124	4,626	31,339	35,965
Sales	—	(5,192)	(5,192)	(29)	(6,105)	(6,134)
Issuances	—	—	—	—	—	—
Settlements	—	—	—	—	—	—
Total realized and unrealized gains (losses) included in earnings, net	(16)	2,103	2,087	(19)	(1,144)	(1,163)
Transfers into Level 3	—	—	—	—	—	—
Transfers out of Level 3	—	(19,634)	(19,634)	—	(19,634)	(19,634)
Ending balance	$4,838	$43,257	$48,095	$4,838	$43,257	$48,095

During the three and six months ended June 30, 2013, $19.6 million of securities, at fair value based on the date of transfer, were transferred from Level 3 to Level 1, as these securities began actively trading on a listed exchange during the second quarter of 2013. Since there were no lock-up restrictions on these securities, they were classified as Level 1 upon transfer. During the six months ended June 30, 2013, $2.4 million of securities at fair value based on the date of transfer, were transferred from Level 2 to Level 1 as the lock-up period restrictions on those securities expired. There were no other transfers between Level 1, Level 2 or Level 3 during the three and six months ended June 30, 2013.

For the three and six months ended June 30, 2014, included in net investment income in the condensed consolidated statements of income were net realized gains relating to Level 3 securities of $0.0 million and $0.3 million, respectively, (2013: net realized gains of $0.0 million and $0.3 million, respectively).

For Level 3 classified securities held as of the reporting date, net unrealized gains for the three and six months ended June 30, 2014 of $4.0 million and $4.3 million, respectively (three and six months ended June 30, 2013: net unrealized gain of $2.1 million and net unrealized loss of $1.5 million, respectively), were included in net investment income in the condensed consolidated statements of income.

Investments

Debt instruments, trading

At June 30, 2014, the following investments were included in debt instruments:

	Cost/ amortized cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			

Corporate debt – U.S.	$2,116	$—	$(1,516	) $600
Corporate debt – Non U.S.	3,761	338	(99	) 4,000
Total debt instruments	$5,877	$338	$(1,615	) $4,600

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At December 31, 2013, the following investments were included in debt instruments:

	Cost/ amortized cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Corporate debt – U.S.	$2,116	$—	$(1,589)	$527
Corporate debt – Non U.S.	3,761	115	(91)	3,785
Total debt instruments	$5,877	$115	$(1,680)	$4,312

The maturity distribution for debt instruments held at June 30, 2014 and December 31, 2013 was as follows:

	June 30, 2014		December 31, 2013	
	Cost/ amortized cost	Fair value	Cost/ amortized cost	Fair value
	($ in thousands)			
Within one year	$—	$—	$—	$—
From one to five years	—	—	—	—
From five to ten years	—	—	—	—
More than ten years	5,877	4,600	5,877	4,312
	$5,877	$4,600	$5,877	$4,312

Investment in Equity Securities, Trading

At June 30, 2014, the following long positions were included in equity securities, trading:

	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Equities – listed	$960,147	$355,333	$(26,074)	$1,289,406
Exchange traded funds	50,253	—	(18,233)	32,020
	$1,010,400	$355,333	$(44,307)	$1,321,426

At December 31, 2013, the following long positions were included in equity securities, trading:

	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Equities – listed	$923,594	$361,695	$(28,712)	$1,256,577
Exchange traded funds	50,253	—	(24,674)	25,579
	$973,847	$361,695	$(53,386)	$1,282,156

Other Investments

"Other investments" include commodities and private and unlisted equity securities. As of June 30, 2014 and December 31, 2013, commodities were comprised of gold bullion.

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At June 30, 2014, the following securities were included in other investments:

	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Commodities	$110,579	$13,026	$—	$123,605
Private and unlisted equity securities	41,286	12,450	(2,909)	50,827
	$151,865	$25,476	$(2,909)	$174,432

At December 31, 2013, the following securities were included in other investments:

	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Commodities	$54,633	$6,255	$—	$60,888
Private and unlisted equity securities	45,544	8,170	(7,391)	46,323
	$100,177	$14,425	$(7,391)	$107,211

As of June 30, 2014, included in private and unlisted equity securities are investments in private equity funds with a fair value of $10.3 million (December 31, 2013: $41.6 million) determined based on unadjusted net asset values reported by the managers of these securities. Some of these values were reported from periods prior to June 30, 2014. The private equity funds have varying lock-up periods and as of June 30, 2014, all of the funds had redemption restrictions, and therefore have been categorized within Level 3 of the fair value hierarchy. The redemption restrictions have been in place since inception of the investments and are not expected to lapse. As of June 30, 2014, the Company had $11.0 million (December 31, 2013: $6.3 million) of unfunded commitments relating to private equity funds whose fair values are determined based on unadjusted net asset values reported by the managers of these securities. These commitments are included in the amounts presented in the schedule of commitments and contingencies in Note 8 of these condensed consolidated financial statements.

As of June 30, 2014, included in private and unlisted equity securities are investments in private equity funds with a fair value of $31.1 million determined based on the price of a transaction agreement between a third party and the private equity funds. Since the closing of the transaction agreement is subject to various shareholder and regulatory approvals, the purchase price was discounted to allow for the risk of the transaction not closing. As of December 31, 2013, these private equity funds were valued at $26.3 million based on unadjusted net asset values reported by the fund managers.

Investments in Securities Sold, Not Yet Purchased

At June 30, 2014, the following securities were included in investments in securities sold, not yet purchased:

	Proceeds	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Equities – listed	$(779,596)	$55,884	$(168,570)	$(892,282)
Exchange traded funds	(5,723)	—	(471)	(6,194)
Corporate debt – U.S.	(7,066)	4	(24)	(7,086)
Sovereign debt – Non U.S.	(170,375)	—	(26,361)	(196,736)
	$(962,760)	$55,888	$(195,426)	$(1,102,298)

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At December 31, 2013, the following securities were included in investments in securities sold, not yet purchased:

	Proceeds	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Equities – listed	$(836,708)	$57,854	$(130,621)	$(909,475)
Exchange traded funds	(6,318)	—	(1,330)	(7,648)
Corporate debt – U.S.	(8,135)	2	(235)	(8,368)
Sovereign debt – Non U.S.	(170,375)	—	(15,824)	(186,199)
	$(1,021,536)	$57,856	$(148,010)	$(1,111,690)

Financial Contracts

As of June 30, 2014 and December 31, 2013, the Company had entered into total return swaps, CDS, options, warrants, rights, futures, forwards and interest rate options contracts with various financial institutions to meet certain investment objectives. Under the terms of each of these financial contracts, the Company is either entitled to receive or is obligated to make payments which are based on the product of a formula contained within each contract that includes the change in the fair value of the underlying or reference security.

At June 30, 2014, the fair values of financial contracts outstanding were as follows:

Financial Contracts	Listing currency	Notional amount of underlying instruments	Fair value of net assets (obligations) on financial contracts
		($ in thousands)	
Financial contracts receivable			
Interest rate options	USD	179,959	$—
Put options	USD	147,695	4,245
Total return swaps – equities	EUR/GBP/HKD/USD	186,704	88,817
Warrants and rights on listed equities	EUR	12,361	4,396
Total financial contracts receivable, at fair value			$97,458
Financial contracts payable			
Credit default swaps, purchased – corporate debt	USD	235,195	$(2,281)
Credit default swaps, purchased – sovereign debt	USD	251,467	(2,930)
Forwards	KRW	42,269	(709)
Futures	USD	73,642	(501)
Total return swaps – equities	EUR/GBP/HKD	84,503	(16,028)
Total financial contracts payable, at fair value			$(22,449)

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At December 31, 2013, the fair values of financial contracts outstanding were as follows:

Financial Contracts	Listing currency	Notional amount of underlying instruments ($ in thousands)	Fair value of net assets (obligations) on financial contracts
Financial contracts receivable			
Forwards	JPY	71,162	$383
Futures	JPY/USD	117,494	4,500
Interest rate options	USD	391,559	26
Put options	USD	217,359	12,923
Total return swaps – equities	EUR/GBP/HKD/USD	178,988	83,325
Warrants and rights on listed equities	EUR	5,237	2,891
Total financial contracts receivable, at fair value			$104,048
Financial contracts payable			
Credit default swaps, purchased – corporate debt	USD	273,877	$(3,625)
Credit default swaps, purchased – sovereign debt	USD	251,467	(3,980)
Forwards	KRW	32,100	(58)
Total return swaps – equities	EUR/GBP/HKD	36,983	(11,194)
Total financial contracts payable, at fair value			$(18,857)

As of June 30, 2014 and December 31, 2013, included in interest rate options are contracts on U.S. and Japanese interest rates denominated in U.S. dollars. Included in put options (under financial contracts receivable) are options on foreign currencies, primarily the Japanese Yen, the Australian Dollar and the Chinese Yuan, denominated in U.S. dollars.

During the three and six months ended June 30, 2014 and 2013, the Company reported gains and losses on derivatives as follows:

Derivatives not designated as hedging instruments	Location of gains and losses on derivatives recognized in income	Gain (loss) on derivatives recognized in income		Gain (loss) on derivatives recognized in income	
		Three months ended June 30		Six months ended June 30	
		2014	2013	2014	2013
		($ in thousands)		($ in thousands)	
Credit default swaps, purchased – corporate debt	Net investment income	$(157)	$(657)	$(146)	$(2,258)
Credit default swaps, purchased – sovereign debt	Net investment income	(8)	(117)	(214)	(16)
Forwards	Net investment income	(2,228)	3,327	(2,731)	7,062
Futures	Net investment income	920	1,608	(3,960)	1,049
Interest rate options	Net investment income	—	68	(26)	35
Options, warrants, and rights	Net investment income	(8,488)	20,770	(18,108)	32,706
Total return swaps – equities	Net investment income	23,655	9,019	30,074	20,682
Total		$13,694	$34,018	$4,889	$59,260

The Company generally does not enter into derivatives for risk management or hedging purposes. The volume of derivative activities varies from period to period depending on potential investment opportunities.

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For the three and six months ended June 30, 2014, the Company's volume of derivative activities (based on notional amounts) was as follows:

Derivatives not designated as hedging instruments	Three months ended June 30, 2014 Entered	Exited	Six months ended June 30, 2014 Entered	Exited
	($ in thousands)		($ in thousands)	
Forwards	$—	$—	$—	$63,191
Futures	92,961	55,897	128,823	170,564
Options, warrants and rights (1)	333,884	68,641	527,100	128,147
Total return swaps	31,092	20,466	75,561	49,548
Total	$457,937	$145,004	$731,484	$411,450

(1) Exited amount excludes options which expired or were exercised during the period.

For the three and six months ended June 30, 2013, the Company's volume of derivative activities (based on notional amounts) was as follows:

Derivatives not designated as hedging instruments	Three months ended June 30, 2013 Entered	Exited	Six months ended June 30, 2013 Entered	Exited
	($ in thousands)		($ in thousands)	
Forwards	$267,319	$—	$386,937	$115,883
Futures	91,320	39,495	218,519	167,249
Options, warrants and rights (1)	212,874	537,770	532,979	541,824
Total return swaps	139,989	18,828	171,256	48,111
Total	$711,502	$863,193	$1,309,691	$1,154,052

(1) Exited amount excludes options which expired or were exercised during the period.

The Company does not offset its derivative instruments and presents all amounts in the condensed consolidated balance sheets on a gross basis. The Company has pledged cash collateral to derivative counterparties to support the current value of amounts due to the counterparties based on the value of the underlying security.

As of June 30, 2014, the gross and net amounts of derivative instruments and the cash collateral applicable to derivative instruments were as follows:

June 30, 2014	(i)	(ii)	(iii) = (i) - (ii)	(iv) Gross amounts not offset in the balance sheet		(v) = (iii) + (iv)
Description	Gross amounts of recognized assets (liabilities)	Gross amounts offset in the balance sheet	Net amounts of assets (liabilities) presented in the balance sheet	Financial instruments available for offset	Cash collateral (received) pledged	Net amount of asset (liability)
	($ in thousands)					
Financial contracts receivable	$97,458	$—	$97,458	$(17,603)	$(49,609)	$30,246
Financial contracts payable	(22,449)	—	(22,449)	17,603	4,846	—

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As of December 31, 2013, the gross and net amounts of derivative instruments and the cash collateral applicable to derivative instruments were as follows:

December 31, 2013	(i)	(ii)	(iii) = (i) - (ii)	(iv) Gross amounts not offset in the balance sheet		(v) = (iii) + (iv)
Description	Gross amounts of recognized assets (liabilities)	Gross amounts offset in the balance sheet	Net amounts of assets (liabilities) presented in the balance sheet	Financial instruments available for offset	Cash collateral (received) pledged	Net amount of asset (liability)
	($ in thousands)					
Financial contracts receivable	$104,048	$—	$104,048	$(18,857)	$(49,422)	$35,769
Financial contracts payable	(18,857)	—	(18,857)	18,857	—	—

4. DUE TO PRIME BROKERS

As of June 30, 2014, the amount due to prime brokers is comprised of margin-borrowing from prime brokers relating to investments purchased on margin, as well as the margin-borrowing for providing collateral to support some of the Company’s outstanding letters of credit (see Note 8). Under term margin agreements and certain letter of credit facility agreements, the Company pledges certain investment securities to borrow cash from the prime brokers. The borrowed cash is placed in a custodial account in the name of the Company and this custodial account provides collateral for any letters of credit issued. Since there is no legal right of offset, the Company’s liability for the cash borrowed from the prime brokers is included on the condensed consolidated balance sheets as due to prime brokers while the cash held in the custodial account is included on the condensed consolidated balance sheets as restricted cash and cash equivalents. At June 30, 2014, the amounts due to prime brokers included $174.8 million (December 31, 2013: $202.2 million) of cash borrowed under the term margin agreements to provide collateral for letters of credit facilities and $136.3 million (December 31, 2013: $112.5 million) of borrowing relating to investment purchases.

Greenlight Re's investment guidelines, amongst other stipulations in the guidelines, allow for up to 15% (GRIL: 5%) net margin leverage for extended periods of time and up to 30% (GRIL: 20%) net margin leverage for periods of less than 30 days.

5. RETROCESSION

The Company, from time to time, purchases retrocessional coverage for one or more of the following reasons: to manage its overall exposure, to reduce its net liability on individual risks, to obtain additional underwriting capacity and to balance its underwriting portfolio. Additionally, retrocession can be used as a mechanism to share the risks and rewards of business written and therefore can be used as a tool to align the Company's interests with those of its counterparties. The Company currently has coverages that provide for recovery of a portion of loss and loss expenses incurred on certain contracts. Loss and loss adjustment expense recoverable from the retrocessionaires are recorded as assets.

For the three months ended June 30, 2014, loss and loss adjustment expenses incurred of $56.6 million (2013: $78.3 million) reported on the condensed consolidated statements of income are net of loss and loss adjustment expenses

recovered and recoverable of $0.9 million (2013: $0.7 million). For the six months ended June 30, 2014, loss and loss adjustment expenses incurred of $124.0 million (2013: $144.6 million) reported on the condensed consolidated statements of income are net of loss and loss adjustment expenses recovered and recoverable of $1.2 million (2013: negative $10.7 million). The negative loss and loss adjustment expenses recovered for the six months ended June 30, 2013 were due to reversal of loss reserves on retrocession contracts that were novated during the first half of 2013.

Retrocession contracts do not relieve the Company from its obligations to the insureds. Failure of retrocessionaires to honor their obligations could result in losses to the Company. At June 30, 2014, the Company had losses recoverable of $12.8 million (December 31, 2013: $16.8 million) with unrated retrocessionaires. At June 30, 2014 and December 31, 2013, $2.5 million and $4.0 million, respectively, of losses recoverable from unrated retrocessionaires were secured by cash collateral held by the Company, $5.9 million and nil, respectively, were secured through a trust account and the remainder was secured by other collateral in the form of guarantees.

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At June 30, 2014, an uncollateralized loss reserve recoverable of $4.5 million (December 31, 2013: $12.8 million) was related to an unrated retrocessionaire who is contractually obligated to post collateral for the entire balance but has failed to do so. During 2013, an arbitration panel ruled in favor of the Company. The retrocessionaire challenged the arbitration award, seeking to set it aside. A judge in the Grand Court in Grand Cayman subsequently ordered the retrocessionaire to post security in the amount of the arbitration award pending a hearing on the merits, whereupon the retrocessionaire challenged the posting of security. However, during the three months ended June 30, 2014, the retrocession contract was novated to an affiliate of the retrocessionaire, which partially funded a trust account with collateral for the benefit of the Company.

Additionally, at June 30, 2014, the parent entity of the retrocessionaire was also delinquent in its payment to the Company of $11.0 million (December 31, 2013: $12.0 million) relating to ceding commission adjustments included in reinsurance balances receivable. The Company has initiated legal proceedings in order to enforce its contractual rights. The Company believes it will be successful in its pending legal actions.

The Company regularly evaluates the financial condition of all its retrocessionaires to assess the ability of the retrocessionaires to honor their obligations. At June 30, 2014 and December 31, 2013, no provision for uncollectible losses recoverable was considered necessary.

6. SHARE-BASED COMPENSATION

The Company has a stock incentive plan for directors, employees and consultants. Shares authorized for issuance are comprised of 300,000 (December 31, 2013: 300,000) Class A ordinary shares in relation to share purchase options granted to a service provider and 3,500,000 (December 31, 2013: 3,500,000) Class A ordinary shares authorized for the Company’s stock incentive plan for eligible employees, directors and consultants. As of June 30, 2014, 20,000 (December 31, 2013: 20,000) Class A ordinary shares remained available for future issuance relating to share purchase options granted to the service provider, and 831,376 (December 31, 2013: 961,587) Class A ordinary shares remained available for future issuance under the Company's stock incentive plan. The stock incentive plan is administered by the Compensation Committee of the Board of Directors.

Service Provider Share Purchase Options

On September 20, 2004, the Company granted share purchase options to a service provider to purchase 400,000 Class A ordinary shares at an exercise price of $10.00 per share. As of June 30, 2014, there were 20,000 share purchase options outstanding (December 31, 2013: 20,000) with an exercise price of $10.00 per share option, which expire in August 2014.

Employee and Director Restricted Shares

As part of its stock incentive plan, the Company issues restricted shares for which the fair value is equal to the price of the Company’s Class A ordinary shares on the grant date. Compensation based on the grant date fair market value of the shares is expensed on a straight line basis over the vesting period.

For the six months ended June 30, 2014, 119,566 (2013: 111,231) restricted Class A ordinary shares were issued to employees pursuant to the Company’s stock incentive plan. These shares contain certain restrictions relating to, among other things, vesting, forfeiture in the event of termination of employment and transferability. Each of these restricted shares will cliff vest after three years from the date of issuance, subject to the grantee’s continued service with the

Company. During the vesting period, the holder of the restricted shares retains voting rights and is entitled to any dividends declared by the Company.

For the six months ended June 30, 2014, the Company also issued to non-employee directors an aggregate of 28,060 (2013: 36,374) restricted Class A ordinary shares as part of their remuneration for services to the Company. Each of these restricted shares issued to non-employee directors contain similar restrictions to those issued to employees and will vest on the earlier of the first anniversary of the share issuance or the Company's next annual general meeting, subject to the grantee's continued service with the Company.

For the six months ended June 30, 2014, 27,083 (2013: 16,123) restricted shares were forfeited by employees who left the Company prior to the expiration of the vesting period. For the six months ended June 30, 2014, in accordance with U.S. GAAP, $0.2 million of stock compensation expense (2013: $0.2 million) relating to the forfeited restricted shares was reversed.

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The restricted share award activity during the six months ended June 30, 2014 was as follows:

	Number of non-vested restricted shares	Weighted average grant date fair value
Balance at December 31, 2013	328,991	$24.74
Granted	147,626	32.57
Vested	(106,208)	25.70
Forfeited	(27,083)	27.32
Balance at June 30, 2014	343,326	$27.61

Employee and Director Stock Options

For the six months ended June 30, 2014, 196,500 (2013: 38,500) stock options were exercised (cashless) resulting in 127,955 Class A ordinary shares issued (2013: 38,500). When stock options are granted, the Company reduces the corresponding number from the shares authorized for issuance as part of the Company's stock incentive plan. The intrinsic value of options exercised during the six months ended June 30, 2014 was $4.1 million (2013: $0.5 million).

Employee and director stock option activity during the six months ended June 30, 2014 was as follows:

	Number of options	Weighted average exercise price	Weighted average grant date fair value
Balance at December 31, 2013	1,402,987	$15.82	$7.08
Granted	—	—	—
Exercised	(196,500)	11.27	5.66
Forfeited	—	—	—
Expired	—	—	—
Balance at June 30, 2014	1,206,487	$16.56	$7.31

Employee Restricted Stock Units

The Company issues restricted stock units ("RSUs") to certain employees as part of the stock incentive plan. The grant date fair value of the RSUs is equal to the price of the Company's Class A ordinary shares on the grant date. Compensation cost based on the grant date fair market value of the RSUs is expensed on a straight line basis over the vesting period.

For the six months ended June 30, 2014, 9,668 (2013: 5,347) RSUs were issued to employees pursuant to the Company's stock incentive plan. These shares contain certain restrictions relating to, among other things, vesting, forfeiture in the event of termination of employment and transferability. Each of these RSUs will cliff vest after three years from the date of issuance, subject to the grantee's continued service with the Company. On the vesting date, the Company converts each RSU into one Class A ordinary share and issues new Class A ordinary shares from the shares authorized for issuance as part of the Company's stock incentive plan.

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Employee RSU activity during the six months ended June 30, 2014 was as follows:

	Number of non-vested RSUs	Weighted average grant date fair value
Balance at December 31, 2013	5,941	$24.41
Granted	9,668	32.60
Vested	—	—
Forfeited	—	—
Balance at June 30, 2014	15,609	$29.72

For the six months ended June 30, 2014 and 2013, the general and administrative expenses included stock compensation expense (net of forfeitures) of $1.8 million and $1.6 million, respectively, for the expensing of the fair value of stock options, restricted stocks and RSUs granted to employees and directors.

7. RELATED PARTY TRANSACTIONS

Investment Advisory Agreement

As of December 31, 2013, the Company and its reinsurance subsidiaries were party to an investment advisory agreement with DME Advisors (the "prior agreement") under which the Company, its reinsurance subsidiaries and DME Advisors created a joint venture for the purpose of managing certain jointly held assets. Effective January 1, 2014, the prior agreement was amended and restated to replace DME Advisors with DME Advisors, LLC ("DME") as the participant to the joint venture (the "venture agreement"). Simultaneously, the Company, its reinsurance subsidiaries and DME entered into a separate investment advisory agreement with DME Advisors (the "advisory agreement"). DME and DME Advisors are related to the Company and are an affiliate of David Einhorn, Chairman of the Company's Board of Directors.

Pursuant to the venture agreement, performance allocation equal to 20% of the net income of the Company's share of the account managed by DME Advisors is allocated, subject to a loss carry forward provision, to DME's account. The loss carry forward provision allows DME to earn a reduced performance allocation of 10% on net investment income in any year subsequent to the year in which the investment account incurs a loss, until all the losses are recouped and an additional amount equal to 150% of the aggregate investment loss is earned. DME is not entitled to earn a performance allocation in a year in which the investment portfolio incurs a loss. For the three and six months ended June 30, 2014, performance allocation of $24.0 million and $24.0 million, respectively (2013: $5.8 million and $21.9 million, respectively) was included in net investment income.

Pursuant to the advisory agreement, a monthly management fee, equal to 0.125% (1.5% on an annual basis) of the Company's investment account managed by DME Advisors, is paid to DME Advisors. Included in the net investment income for the three and six months ended June 30, 2014 were management fees of $5.1 million and $10.1 million, respectively (2013: $4.5 million and $8.8 million, respectively). The management fees have been fully paid as of June 30, 2014.

Pursuant to the venture and advisory agreements, the Company has agreed to indemnify DME and DME Advisors for any expense, loss, liability, or damage arising out of any claim asserted or threatened in connection with DME Advisors serving as the Company's investment advisor. The Company will reimburse DME and DME Advisors for reasonable costs and expenses of investigating and/or defending such claims provided such claims were not caused

due to gross negligence, breach of contract or misrepresentation by DME or DME Advisors. For the six months ended June 30, 2014, there were no indemnification payments made by the Company.

Service Agreement

The Company has entered into a service agreement with DME Advisors, pursuant to which DME Advisors provides investor relations services to the Company for compensation of five thousand dollars per month (plus expenses). The agreement is automatically renewed annually until terminated by either the Company or DME Advisors for any reason with 30 days prior written notice to the other party.

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8. COMMITMENTS AND CONTINGENCIES

Letters of Credit

At June 30, 2014, the Company had the following letter of credit facilities, which automatically renew each year unless terminated by either party in accordance with the required notice period:

	Facility	Termination Date	Notice period required for termination
	($ in thousands)		
Bank of America, N.A.	$200,000	July 20, 2015	90 days prior to termination date
Butterfield Bank (Cayman) Limited	60,000	June 30, 2015	90 days prior to termination date
Citibank Europe plc	400,000	October 11, 2015	120 days prior to termination date
JP Morgan Chase Bank N.A.	100,000	January 27, 2015	120 days prior to termination date
	$760,000		

As of June 30, 2014, an aggregate amount of $337.7 million (December 31, 2013: $379.1 million) in letters of credit were issued under the above facilities. Under the facilities, the Company provides collateral that may consist of equity securities, restricted cash, and cash and cash equivalents. As of June 30, 2014, total equity securities, restricted cash, and cash and cash equivalents with a fair value in the aggregate of $376.5 million (December 31, 2013: $410.3 million) were pledged as security against the letters of credit issued (also see Note 4). Each of the facilities contain customary events of default and restrictive covenants, including but not limited to, limitations on liens on collateral, transactions with affiliates, mergers and sales of assets, as well as solvency and maintenance of certain minimum pledged equity requirements, and restricts issuance of any debt without the consent of the letter of credit provider. Additionally, if an event of default exists, as defined in the letter of credit facilities, Greenlight Re will be prohibited from paying dividends to its parent company. The Company was in compliance with all the covenants of each of these facilities as of June 30, 2014 and December 31, 2013.

Operating Lease Obligations

Greenlight Re has entered into lease agreements for office space in the Cayman Islands. Under the terms of the lease agreements, Greenlight Re is committed to annual rent payments ranging from $0.3 million at inception to $0.5 million at lease termination. The leases expire on June 30, 2018 and Greenlight Re has the option to renew the leases for a further five year term. Included in the schedule below are the minimum lease payment obligations relating to these leases as of June 30, 2014.

GRIL has entered into a lease agreement for office space in Dublin, Ireland. Under the terms of this lease agreement, GRIL is committed to average annual rent payments denominated in Euros approximating €0.1 million until May 2016 (net of rent inducements), adjusted to the prevailing market rates for each of three subsequent five-year terms. GRIL has the option to terminate the lease agreement in 2016 and 2021. Included in the schedule below are the net minimum lease payment obligations relating to this lease as of June 30, 2014.

The total rent expense related to leased office space for the three and six months ended June 30, 2014 was $0.1 million and $0.3 million, respectively (2013: $0.1 million and $0.2 million, respectively).

Specialist Service Agreement

The Company has entered into a service agreement with a specialist service provider for the provision of administration and support in developing and maintaining business relationships, reviewing and recommending programs and managing risks relating to certain specialty lines of business. The specialist service provider does not have any authority to bind the Company to any reinsurance contracts. Under the terms of the agreement, the Company has committed to quarterly payments to the specialist service provider. If the agreement is terminated, the Company is obligated to make minimum payments for twelve months starting on September 1 of the year in which the agreement is terminated, to ensure contracts to which the Company is bound are adequately administered by the specialist service provider. Included in the schedule below are the minimum payment obligations relating to the agreement as of June 30, 2014.

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Private Equity and Limited Partnerships

From time to time, the Company makes investments in private equity vehicles. As part of the Company's participation in such private equity investments, the Company may make funding commitments. As of June 30, 2014, the Company had commitments to invest an additional $11.0 million (December 31, 2013: $6.3 million) in private equity investments. Included in the schedule below are the minimum payment obligations relating to these investments as of June 30, 2014.

Schedule of Commitments and Contingencies

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

	2014	2015	2016	2017	2018	Thereafter	Total
	($ in thousands)						
Operating lease obligations	$279	$557	$500	$466	$233	$—	$2,035
Specialist service agreement	450	750	300	—	—	—	1,500
Private equity and limited partnerships (1)	10,963	—	—	—	—	—	10,963
	$11,692	$1,307	$800	$466	$233	$—	$14,498

(1) Given the nature of these investments, the Company is unable to determine with any degree of accuracy when these commitments will be called. Therefore, for purposes of the above table, the Company has assumed that all commitments with no fixed payment schedules will be called during the year ended December 31, 2014.

Litigation

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

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9. SEGMENT REPORTING

The Company manages its business on the basis of one operating segment, Property & Casualty Reinsurance.

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

Gross Premiums Written by Line of Business

	Three months ended June 30				Six months ended June 30			
	2014		2013		2014		2013	
	($ in thousands)				($ in thousands)			
Property								
Aviation	$—	— %	$—	— %	$290	0.2 %	$96	— %
Commercial	885	2.6	4,609	3.4	7,230	4.7	9,735	3.7
Energy	—	—	—	—	2,131	1.4	1,553	0.6
Motor physical damage	5,178	15.4	14,508	10.7	12,354	8.1	27,338	10.4
Personal (1)	(12,499)	(37.1)	39,638	29.3	25,508	16.7	73,660	28.1
Total Property	(6,436)	(19.1)	58,755	43.4	47,513	31.1	112,382	42.8
Casualty								
General liability (1)	1,725	5.1	(975)	(0.7)	2,916	1.9	(2,212)	(0.8)
Marine liability	—	—	—	—	3,847	2.5	603	0.2
Motor liability	29,340	87.2	74,022	54.8	67,454	44.2	130,700	49.9
Professional liability	96	0.3	113	0.1	408	0.3	1,124	0.4
Total Casualty	31,161	92.6	73,160	54.2	74,625	48.9	130,215	49.7
Specialty								
Financial	1,818	5.4	1,050	0.8	3,018	2.0	1,297	0.5
Health	7,111	21.1	9,779	7.2	27,399	18.0	22,483	8.6
Workers' compensation (1)	—	—	(7,546)	(5.6)	—	—	(4,215)	(1.6)
Total Specialty	8,929	26.5	3,283	2.4	30,417	20.0	19,565	7.5
	$33,654	100.0 %	$135,198	100.0 %	$152,555	100.0 %	$262,162	100.0 %

(1) The negative balance represents reversal of premiums due to premium adjustments, termination of contracts or premiums returned upon novation or commutation of contracts.

Gross Premiums Written by Geographic Area of Risks Insured

	Three months ended June 30				Six months ended June 30			
	2014		2013		2014		2013	
	($ in thousands)				($ in thousands)			
U.S.	$33,587	99.8 %	$134,806	99.7 %	$138,112	90.5 %	$252,345	96.3 %
Worldwide (1)	1	—	—	—	14,065	9.2	9,434	3.6
Caribbean (2)	(30)	(0.1)	280	0.2	(30)	—	(95)	—
Europe	96	0.3	112	0.1	408	0.3	478	0.1
	$33,654	100.0 %	$135,198	100.0 %	$152,555	100.0 %	$262,162	100.0 %

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

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

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References to "we," "us," "our," "our company," or "the Company" refer to Greenlight Capital Re, Ltd. ("GLRE") and its wholly-owned subsidiaries, Greenlight Reinsurance, Ltd, ("Greenlight Re"), Greenlight Reinsurance Ireland, Ltd. ("GRIL") and Verdant Holding Company, Ltd. ("Verdant"), unless the context dictates otherwise. References to our "Ordinary Shares" refers collectively to our Class A Ordinary Shares and Class B Ordinary Shares.

The following is a discussion and analysis of our results of operations for the three and six months ended June 30, 2014 and 2013 and financial condition as of June 30, 2014 and December 31, 2013. The following discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes, which appear in our annual report on Form 10-K for the fiscal year ended December 31, 2013.

Special Note About Forward-Looking Statements

Certain statements in Management's Discussion and Analysis, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements generally are identified by the words "believe," "project," "predict," "expect," "anticipate," "estimate," "intend," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" (refer to Part I, Item 1A) contained in our annual report on Form 10-K for the fiscal year ended December 31, 2013. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned not to place undue reliance on the forward looking statements which speak only to the dates on which they were made.

We intend to communicate certain events that we believe may have a material adverse impact on our operations or financial position, including property and casualty catastrophic events and material losses in our investment portfolio, in a timely manner through a public announcement. Other than as required by the Exchange Act, we do not intend to make public announcements regarding reinsurance or investments events that we do not believe, based on management's estimates and current information, will have a material adverse impact on our operations or financial position.

General

We are a Cayman Islands headquartered global specialty property and casualty reinsurer with a reinsurance and investment strategy that we believe differentiates us from most of 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, which we believe will yield favorable long-term returns on equity.

We aim to complement our underwriting results with a non-traditional investment approach in order to achieve higher rates of return over the long term than reinsurance companies that employ more traditional, fixed-income investment strategies. We manage our investment portfolio according to a value-oriented philosophy, in which we take long

positions in perceived undervalued securities and short positions in perceived overvalued securities.

Because we employ an opportunistic underwriting philosophy, period-to-period comparisons of our underwriting results may not be meaningful. In addition, our historical investment results may not necessarily be indicative of future performance. Due to the nature of our reinsurance and investment strategies, our operating results will likely fluctuate from period to period.

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Segments

We manage our business on the basis of one operating segment, property and casualty reinsurance, in accordance with the qualitative and quantitative criteria established by U.S. GAAP. Within the property and casualty reinsurance segment, we analyze our underwriting operations using two categories:

- frequency business; and
- severity business.

Frequency business is generally characterized as contracts containing a potentially large number of small losses emanating from multiple events. Clients generally buy this protection to increase their own underwriting capacity and typically select a reinsurer based upon the reinsurer's financial strength, service and expertise. We expect the results of frequency business to be less volatile than those of severity business from period to period due to greater predictability. We also expect that over time the profit margins and return on equity of our frequency business will be lower than those of our severity business.

Severity business is generally characterized as contracts with the potential for significant losses emanating from one event or multiple events. Clients generally buy this protection to remove volatility from their balance sheets, and accordingly, we expect the results of severity business to be volatile from period to period. However, over the long term, we also expect that our severity business will generate higher profit margins and return on equity than those of our frequency business.

Outlook and Trends

We believe the reinsurance industry in general has been, and for the foreseeable future will remain, over-capitalized. Over the past year, there has been an influx of new capital for peak zone catastrophe risk from alternative capital market participants such as hedge funds, pension funds and other fixed income bond managers. Additionally, we believe that the slowdown in worldwide economic activity continues to weaken the overall demand for property and casualty insurance and, accordingly, reinsurance. Notwithstanding the foregoing, the over-capitalization of the reinsurance industry may be countered by the introduction of more stringent capital requirements in the industry (particularly in Europe) and a sustained low interest rate environment. We believe that we are well positioned to compete for frequency business due to our increasing market recognition, the continuing development of strategic relationships and Greenlight Re's "A (Excellent)" and GRIL's "A- (Excellent)" ratings by A.M. Best.

We believe we are currently in a gradually hardening insurance market, but due to poor economic conditions and industry over-capitalization, we do not expect rate increases to significantly exceed loss trends. Meanwhile, the reinsurance industry remains over-capitalized and competitive with many sectors continuing to operate at levels that we believe are economically irrational. The over-capitalization of the market is not uniform across all insurers and reinsurers. There are a number of insurers and reinsurers that have suffered and continue to suffer from capacity issues. We continue to assess the possibility of partnering with companies with this profile. If the reinsurance market continues to soften, our strategy is to reduce premium writings rather than accept mispriced risk, and conserve our capital for a more opportune environment. Significant price increases could occur if financial and credit markets experience adverse shocks that result in the loss of capital of insurers and reinsurers, or if there are major catastrophic events, especially in North America. The persistent low interest rate environment has reduced the earnings of many insurance and reinsurance companies and we believe that the continuation of low interest rates, coupled with the reduction of prior years' reserve redundancies, could cause the industry to adopt overall higher pricing.

As of June 30, 2014, our reinsurance portfolio was principally concentrated in four areas: Florida homeowners; U.S. employer health stop loss; catastrophe retrocession and non-standard private passenger automobile. While each of these areas is competitive, we believe we are supporting programs with good risk adjusted returns. We believe that the

Florida homeowners, U.S. employer health stop loss and non-standard private passenger automobile sectors are stable at what we believe are profitable levels. While we believe the property catastrophe retrocession contracts on which we participate are attractively priced, we have observed significant flexible capital from non-traditional sources being deployed mainly in peak zone catastrophe excess of loss business, which is putting downward pressure on rates. While the competitive market conditions are making it challenging to find new business that meets our return hurdles, we have a pipeline of attractive opportunities that we hope to underwrite over the intermediate term. We intend to continue to monitor market conditions to position ourselves to participate in future under-served or capacity-constrained markets as they arise and intend to offer products that we believe will generate favorable returns on equity over the long term. Accordingly, our

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underlying results and product line concentrations in any given period may vary, perhaps significantly, and are not necessarily indicative of our future results of operations.
Our investment portfolio had a net long exposure of 47.5% as of June 30, 2014. Equity markets traded in a tight range in the first half of 2014 with some indexes slightly up while others slightly down. Our net exposure did not change materially during the quarter. Our goal in 2014 remains to protect capital in an uncertain environment and to find investment opportunities on both our long and short portfolios that will generate positive returns. Given the current investment environment, we anticipate, for the foreseeable future, to continue holding a combination of a significant position in gold, macro positions in the form of options on foreign exchange rates, short positions in sovereign debt and sovereign credit default swaps.
Critical Accounting Policies

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. We believe that the critical accounting policies set forth in our annual report on Form 10-K for the fiscal year ended December 31, 2013 continue to describe the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. These accounting policies pertain to premium revenues and risk transfer, valuation of investments, loss and loss adjustment expense reserves, acquisition costs, bonus accruals and share-based payments. If actual events differ significantly from the underlying judgments or estimates used by management in the application of these accounting policies, there could be a material effect on our results of operations and financial condition.

Recently issued accounting standards and their impact to the Company, if any, are presented under "Recently Adopted Accounting Standards" in Note 2 of the accompanying condensed consolidated financial statements.

Results of Operations

Three and six months ended June 30, 2014 and 2013

For the three months ended June 30, 2014, we reported net income of $109.6 million, compared to net income of $28.5 million reported for the same period in 2013. Our net investment income for the three months ended June 30, 2014 was $113.9 million, compared to a net investment income of $24.2 million reported for the same period in 2013. Our investment portfolio managed by DME Advisors, LP reported a gain of 8.1% for the three months ended June 30, 2014, compared to a gain of 2.0% for the same period in 2013. The underwriting income before general and administrative expenses for the three months ended June 30, 2014 was $5.6 million, compared to $11.7 million for the same period in 2013. The decrease in underwriting income for the three months ended June 30, 2014 was primarily due to an increase in the composite ratio for the period. For the three months ended June 30, 2014, our composite ratio was 93.6%, compared to 91.2% during the same period in 2013. General and administrative expenses for the three months ended June 30, 2014 increased to $6.9 million, compared to $5.9 million for the comparative period in 2013, primarily due to $1.4 million of non-investment related foreign exchange losses reported in the second quarter of 2014, compared to a foreign exchange loss of $0.1 million reported in the same period in 2013.

For the six months ended June 30, 2014, we reported net income of $100.7 million, compared to net income of $85.2 million reported for the same period in 2013. Our net investment income for the six months ended June 30, 2014 was $103.8 million, compared to a net investment income of $85.4 million reported for the same period in 2013. Our investment portfolio managed by DME Advisors, LP reported a gain of 7.3% for the six months ended June 30, 2014, compared to a gain of 7.9% for the same period in 2013. The underwriting income before general and administrative expenses for the six months ended June 30, 2014 was $12.2 million, compared to underwriting income of $13.6 million reported for the same period in 2013. The decrease in underwriting income for the six months ended June 30,

2014 was primarily due to a private passenger motor contract terminated at the end of 2013, partially offset by a lower composite ratio on our overall underwriting operations. For the six months ended June 30, 2014, our overall composite ratio decreased to 93.9%, compared to 94.3% during the same period in 2013. General and administrative expenses increased for the six months ended June 30, 2014 to $13.4 million from $9.7 million for the six months ended June 30, 2013, primarily as a result of a non-investment related foreign exchange loss of $1.6 million compared to a foreign exchange gain of $1.9 million for the same period in 2013.

Our primary financial goal is to increase the long-term value in fully diluted adjusted book value per share. For the three months ended June 30, 2014, the fully diluted adjusted book value per share increased by $2.86 per share, or 10.4%, to $30.47 per share from $27.61 per share at March 31, 2014. For the three months ended June 30, 2014, the basic adjusted book value per share increased by $2.90 per share, or 10.3%, to $30.95 per share from $28.05 per share at March 31, 2014.

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For the six months ended June 30, 2014, the fully diluted adjusted book value per share increased by $2.56 per share, or 9.2%, to $30.47 per share from $27.91 per share at December 31, 2013. For the six months ended June 30, 2014, the basic adjusted book value per share increased by $2.56 per share, or 9.0%, to $30.95 per share from $28.39 per share at December 31, 2013.

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

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

	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
	($ in thousands, except per share and share amounts)				
Basic adjusted and fully diluted adjusted book value per share numerator:					
Total equity (U.S. GAAP)	$1,185,195	$1,073,194	$1,086,304	$1,000,595	$941,216
Less: Non-controlling interest in joint venture	(31,087)	(29,512)	(34,709)	(33,959)	(32,218)
Basic adjusted book value per share numerator	1,154,108	1,043,682	1,051,595	966,636	908,998
Add: Proceeds from in-the-money stock options issued and outstanding	18,881	20,297	16,028	18,462	18,528
Fully diluted adjusted book value per share numerator	$1,172,989	$1,063,979	$1,067,623	$985,098	$927,526
Basic adjusted and fully diluted adjusted book value per share denominator:					
Ordinary shares issued and outstanding for basic adjusted book value per share denominator	37,295,312	37,213,693	37,046,814		