

**Greenlight Reinsurance Ireland, Designated Activity Company**  
**Financial Statements**  
**For the financial years ended 31 December 2016 and 2015**

**Greenlight Reinsurance Ireland, dac**

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## **Greenlight Reinsurance Ireland, dac**

### **Directors and Other Information**

<b>Directors</b>	Philip Harkin (Independent Non-Executive Chairman) Bart Hedges (Executive Director) Patrick O'Brien (Executive Director - Appointed 8 June 2016) Frank Lackner (Independent Non-Executive Director) Brendan Tuohy (Independent Non-Executive Director) Caryl Traynor (Executive Director - Resigned 16 February 2016)
<b>Secretary</b>	Edward Brady (Appointed 18 May 2016) La Touche House, Ground Floor IFSC, Dublin 1  Laura Accurso (Resigned 18 May 2016) 65 Market Street Suite 1207 Jasmine Court Camana Bay Grand Cayman
<b>Company number</b>	475022
<b>Registered office</b>	La Touche House, Ground Floor IFSC, Dublin 1
<b>Principal place of business</b>	La Touche House, Ground Floor IFSC, Dublin 1
<b>Auditors</b>	BDO Statutory Audit Firm Beaux Lane House Mercer Street Lower Dublin 2
<b>Bankers</b>	HSBC Grand Canal Square Dublin 2
<b>Solicitors</b>	A&L Goodbody IFSC North Wall Quay Dublin 1

## **Greenlight Reinsurance Ireland, dac**

### **Directors' report**

The directors present their report and the audited financial statements of the Company for the financial years ended 31 December 2016 and 2015.

### **Principal activity and review of the business**

The principal activity of the Company is that of a reinsurance business. The directors plan to develop further the activities of the Company.

### **Results and dividends**

The results for the period were as follows:

	2016	2015
	US\$	
Profit / (Loss) before taxation	3,681,142	(14,610,015)
Corporation tax (expense) / benefit	(501,893)	1,763,093
Profit / (Loss) brought to reserves	3,179,249	(12,846,922)

The directors do not recommend the payment of a dividend.

### **Directors, secretary and their interests**

The names of the persons who were directors and secretary at any time during the financial year ended 31 December 2016 are set out on page 1. The directors and secretary, who held office at 31 December 2016, had no beneficial interest in the share capital of the Company or any other group Company at any time during the financial year except that certain directors had beneficial ownership in the parent company, Greenlight Capital Re, Ltd (the "Parent"), a NASDAQ listed publicly held company. Mr. Lackner's beneficial interest in the Parent included 4,911 restricted shares subject to forfeiture and 97,797 ordinary shares held directly. Mr. Hedges' beneficial interest in the Parent included 313,377 ordinary shares subject to options, 68,175 restricted shares subject to forfeiture and 181,087 ordinary shares held directly. Mr. O'Brien's and Mr. Brady's beneficial interests in the Parent comprised of an insignificant number of common shares of the Parent.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with Irish law and regulations. Irish company law requires the directors to prepare financial statements for each financial year. Under the law, the directors have elected to prepare the financial statements in accordance with Companies Act 2014 and International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the company as at the financial year end date and of the profit or loss of the company for the financial year and otherwise comply with the Companies Act 2014. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for ensuring that the Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Greenlight Reinsurance Ireland, dac**

### **Directors' report - continued**

#### **Accounting records**

The measures taken by the directors to secure compliance with the requirements of sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records are the implementation of necessary policies and procedures for recording transactions, the employment of competent accounting personnel with appropriate expertise and the provision of adequate resources to the financial function. The accounting records of the Company are located at La Touche House, Ground Floor, IFSC, Dublin 1.

#### **Director's compliance statement**

As required by section 225(2) of the Companies Act 2014, the directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in that legislation). The directors have drawn up a compliance policy statement, and have put in place arrangements and structures that are, in the directors' opinion, designed to secure material compliance with the relevant obligations. These arrangements and structures were reviewed by the directors during the financial year.

#### **Principal risks and uncertainties**

The directors consider that the principal risks and uncertainties facing the Company are:

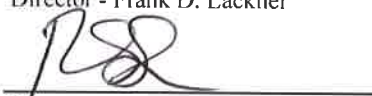
- risk of adverse loss development on the insurance risks assumed;
- risk of final settlement of losses varying significantly from the reserves estimated by the Company;
- risk of a downgrade or withdrawal of the Company's A- (Excellent) rating by A.M. Best rating agency;
- market risk on financial instruments, including equity price risk, foreign currency risk, interest rate risk and credit risk.
- uncollectibility of loss reserves recoverable

#### **Auditors**

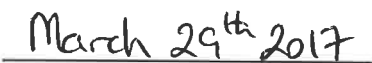
BDO has expressed its willingness to continue in office in accordance with the provisions of Section 383 (2) of the Companies Act, 2014.



Director - Frank D. Lackner



Director - Patrick O'Brien



Date

## **Independent Auditors' Report to the members of Greenlight Reinsurance Ireland, Designated Activity Company**

We have audited the financial statements of Greenlight Reinsurance Ireland, Designated Activity Company for the financial year ended 31 December 2016 on pages 6 to 36 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes. The relevant financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 2 the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view in accordance with IFRSs as adopted by the European Union, of the assets, liabilities and financial position of the Company as at 31 December 2016 and of its profit for the financial year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014 and the European Communities (Insurance Undertakings: Financial Statements) Regulations, 2015.

### **Matters on which we are required to report by the Companies Act 2014**

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements.

#### **Other Offices:**

Four Michael Street  
Limerick

Michael Costello (Managing Partner)  
Andrew Bourg  
Katharine Byrne  
Maurice Carr  
Kevin Doyle  
John Gilmore Gavin

Jim Hamilton  
Sinead Heaney  
Diarmuid Hendrick  
Derek Henry  
Liam Hession  
Gerard Holliday

Brian Hughes  
Ken Kilmartin  
Teresa Morahan  
Paul Nestor  
John O'Callaghan  
Con Quigley

Peter Carroll  
Eddie Doyle  
Stewart Dunne  
Ivor Feerick  
Brian Gartlan  
David Giles  
Derry Gray

Denis Herlihy  
David McCormick  
Brian McEnery  
Ciarán Medlar  
David O'Connor  
Patrick Sheehan  
Noel Taylor

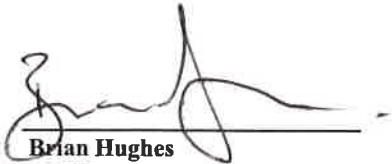
Chartered Accountants



**Independent Auditors Report to the members of Greenlight Reinsurance Ireland, Designated Activity Company - continued**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the provisions of sections 305 to 312 of the Companies Act 2014 which require us to report to you if, in our opinion the disclosure of directors' remuneration and transactions specified by law are not made.



**Brian Hughes**

**For and on behalf of BDO**

Dublin

Statutory Audit Firm

AI223876

29 March 2017  
**Date**

**Greenlight Reinsurance Ireland, dac**

**Statements of Comprehensive Income: Technical Accounts - general business for the financial years ended 31 December 2016 and 2015**

**CONTINUING OPERATIONS:**

	Notes	2016	2015
		US\$	US\$
<b>Gross premiums written</b>		86,217,263	106,617,772
Ceded premiums		(22,608,187)	(21,143,801)
<b>Net premiums written</b>		63,609,076	85,473,971
Movement in unearned premium reserves, net	13	7,900,311	(1,435,250)
<b>Earned premiums, net of reinsurance</b>		71,509,387	84,038,721
Allocated investment return transferred from the non-technical account		1,894,792	(9,237,851)
<b>Total technical income</b>		73,404,179	74,800,870
<b>Claims Paid</b>			
Gross claims paid		(61,825,967)	(54,781,468)
Claims paid recoverable		2,205,942	2,211,642
<b>Change in the provision for claims</b>			
Known claims reserve	13	226,279	(7,283,224)
Other technical reserves	13	(560,820)	(370,898)
Unallocated loss adjustor expense	13	(5,115)	(40,071)
Losses recoverable	13	5,502,578	2,762,332
<b>Claims incurred net of reinsurance</b>		(54,457,103)	(57,501,687)
Operating expenses		(17,140,147)	(24,204,463)
<b>Total technical expenses</b>		(71,597,250)	(81,706,150)
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		1,806,929	(6,905,280)

**Greenlight Reinsurance Ireland, dac**

**Statements of Comprehensive Income: Non-technical Accounts for the financial years ended 31 December 2016 and 2015**

**CONTINUING OPERATIONS:**

	Notes	2016 US\$	2015 US\$
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		1,806,929	(6,905,280)
Investment income		1,793,232	1,147,593
Investment expense		(3,323,683)	(3,273,073)
Market value adjustment		12,925,335	(16,105,048)
(Loss) gain on sale of investments		(7,804,155)	1,090,939
Foreign exchange gain on investments		178,276	197,003
Allocated investment return transferred to the technical account		(1,894,792)	9,237,851
<b>Profit (loss) on ordinary activities before taxation</b>	<b>3</b>	<b>3,681,142</b>	<b>(14,610,015)</b>
Income tax (expense) benefit	<b>5</b>	<b>(501,893)</b>	<b>1,763,093</b>
<b>Retained profit (loss) for the financial year</b>		<b>3,179,249</b>	<b>(12,846,922)</b>

The Company had no recognised gains or losses other than the profit (loss) for the above financial period.

The notes on pages 11 to 36 form part of these financial statements.

On behalf of the board



**Director - Frank D. Lackner**



**Director - Patrick O'Brien**

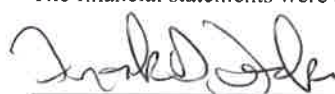
**Greenlight Reinsurance Ireland, dac**

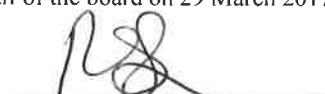
**Statements of financial position at 31 December 2016 and 2015**

	Notes	2016 US\$	2015 US\$
<b>Assets:</b>			
<b>Financial Investments</b>			
Debt securities, trading, at fair value through profit or loss	8	1,388,238	2,676,908
Equity securities, trading, at fair value through profit or loss	8	43,114,023	62,048,201
Other investments, at fair value through profit or loss	8	6,494,662	7,372,399
<b>Total investments</b>		50,996,923	72,097,508
<b>Reinsurers' share of technical provisions</b>			
Unearned premiums ceded		8,353,812	7,949,748
Loss reserves recoverable		13,899,709	8,867,170
<b>Debtors</b>			
Reinsurance balances receivable		38,467,820	37,879,941
<b>Other assets</b>			
Cash and cash equivalents	9	20,875,422	7,506,248
Restricted cash and cash equivalents	10	61,875,368	64,045,178
Derivative contracts receivable, at fair value through profit or loss	8	4,641,474	905,037
Prepayments, general receivables and accrued income		170,113	358,807
Deferred acquisition cost		3,478,205	5,635,500
Tax receivable		—	525,976
Fixed assets	11	123,587	172,703
Deferred tax asset	5	1,272,152	1,730,382
<b>Total Assets</b>		<b>204,154,585</b>	<b>207,674,198</b>
<b>Equity and liabilities:</b>			
<b>Capital and reserves</b>			
Called up share capital	6	10,000,000	10,000,000
Capital contribution reserve	7	50,385,990	50,456,971
Retained earnings		(6,959,840)	(10,139,089)
<b>Total equity</b>		53,426,150	50,317,882
<b>Creditors: amounts falling due within one year</b>			
Accruals and other payables		1,449,495	2,470,948
Due to prime brokers		7,393,694	3,130,323
Due to related party	16	925,171	883,531
<b>Total current liabilities</b>		9,768,360	6,484,802
<b>Non-current liabilities</b>			
Securities sold, not yet purchased, at fair value through profit or loss	8	53,119,486	60,466,987
Derivative contracts payable, at fair value through profit or loss	8	138,183	1,934,395
Reinsurance balances payable		18,920,723	11,867,360
<b>Technical reserves</b>			
Known claims reserves	13	18,900,344	19,472,994
Loss reserves	13	21,839,894	21,519,920
Unearned premium reserve	13	27,166,523	34,747,009
Funds withheld		718,979	712,021
Unallocated loss adjustor provision	13	155,943	150,828
<b>Total non-current liabilities</b>		140,960,075	150,871,514
<b>Total liabilities</b>		150,728,435	157,356,316
<b>Total equity and liabilities</b>		<b>204,154,585</b>	<b>207,674,198</b>

The notes on pages 11 to 36 form part of these financial statements.

The financial statements were approved and issued for signing on behalf of the board on 29 March 2017.

  
Director - Frank D. Lackner

  
Director - Patrick O'Brien

**Greenlight Reinsurance Ireland, dac**

**Statements of changes in equity for the financial years ended 31 December 2016 and 2015**

	<b>Share capital</b>	<b>Capital contribution reserve</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Balance at December 31, 2014</b>	10,000,000	30,230,913	2,707,833	42,938,746
Contributed capital	—	20,226,058	—	20,226,058
Loss for the financial period	—	—	(12,846,922)	(12,846,922)
<b>Balance at December 31, 2015</b>	<u>10,000,000</u>	<u>50,456,971</u>	<u>(10,139,089)</u>	<u>50,317,882</u>
Contributed capital adjustment for stock compensation	—	(70,981)	—	(70,981)
Profit for the financial period	—	—	3,179,249	3,179,249
<b>Balance at December 31, 2016</b>	<u>10,000,000</u>	<u>50,385,990</u>	<u>(6,959,840)</u>	<u>53,426,150</u>

The notes on pages 11 to 36 form part of these financial statements.

**Greenlight Reinsurance Ireland, dac**
**Statements of cash flows for the financial years ended 31 December 2016 and 2015**

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
<b>Operating activities</b>		
Profit (loss) for the period	3,179,249	(12,846,922)
Adjustments for:		
Movement in deferred income tax expense recognised in profit or loss	458,230	(1,729,253)
Change in income tax asset / liability	525,976	61,033
Movement in unearned premium reserves ceded	(404,064)	(5,670,163)
Movement in unearned premium reserves	(7,580,486)	7,105,412
Change in loss reserves recoverable	(5,032,538)	(2,631,846)
Change in known claims reserves	(572,650)	7,161,300
Change in loss reserves	319,974	329,716
Change in unallocated loss adjustor provision	5,115	40,071
Realised loss (gain) from financial investments and derivatives, net	7,804,155	(1,090,938)
Market value adjustment in value of investments and derivatives	(12,925,335)	16,105,048
Foreign exchange loss on investments	(178,276)	(197,003)
Stock compensation (benefit) expense	(70,981)	226,058
Depreciation	49,116	64,937
Operating cash (outflow) inflow before movements in working capital	(14,422,515)	6,927,450
Decrease (increase) in prepayments, general receivables and accrued income	188,693	(66,788)
Increase in reinsurance balances receivable	(587,879)	(11,732,089)
Decrease (increase) in deferred acquisition cost	2,157,295	(158,821)
(Increase) decrease in accruals and other payables	(1,021,453)	1,182,224
Increase in amounts due to related parties	41,640	782,609
Increase in reinsurance balances payable	7,053,363	6,962,104
Increase in funds withheld	6,958	199,253
<b>Net cash (outflow) inflow from operating activities</b>	<b>(6,583,898)</b>	<b>4,095,942</b>
<b>Investing activities</b>		
Purchase of financial investments and derivatives	(101,595,282)	(143,537,670)
Proceeds from disposal of financial investments and derivatives	114,936,897	133,187,533
Decrease (increase) in restricted cash and cash equivalents	2,348,086	(13,991,802)
Increase in due to prime brokers	4,263,371	3,130,323
<b>Net cash inflow / (outflow) from investing activities</b>	<b>19,953,072</b>	<b>(21,211,616)</b>
<b>Financing activities</b>		
Capital Contribution from parent	—	20,000,000
<b>Net cash inflow from financing activities</b>	<b>—</b>	<b>20,000,000</b>
Net increase in cash and cash equivalents	13,369,174	2,884,326
Cash and cash equivalents at the start of the period	7,506,248	4,621,922
<b>Cash and cash equivalents at the end of the period</b>	<b>20,875,422</b>	<b>7,506,248</b>
<b>Supplementary information</b>		
Taxes paid in cash	3,363	1,099
Taxes recovered in cash	551,187	—

The notes on pages 11 to 36 form part of these financial statements.

## **Greenlight Reinsurance Ireland, dac**

### **Notes to the financial statements for the years ended 31 December 2016 and 2015**

#### **1. REPORTING ENTITY**

Greenlight Reinsurance Ireland, dac., (the “Company”) was incorporated as a Private Limited Company under the Irish Companies Acts on September 7, 2009 and is a licensed reinsurance entity domiciled in Dublin, Ireland. The registered office of the Company is La Touche House, Ground Floor, IFSC, Dublin 1. The Company provides multi-line property and casualty reinsurance.

In accordance with the requirements of the Irish Companies Act, 2014 and as stipulated by the Central Bank of Ireland all regulated insurance and reinsurance companies was required to convert from a ‘Limited’ company to a ‘Designated Activity Company’.

Under the Irish companies legislation, the Irish Companies Act 2014 (the Act), which is designed to consolidate and modernise company law, all Irish private limited companies are required to take one of two new forms provided for under the Act, a company limited by shares (which is still referred to as a ‘Limited’ company) or a designated activity company (for which the abbreviation ‘dac’ is permitted). All (re)insurance companies are required to convert to designated activity companies, public limited companies, or another form of company, but are not permitted to convert to a company limited by shares. On 16 December 2015, Greenlight Reinsurance Ireland Designated Activity Company converted to a designated activity company and changed its name from Greenlight Reinsurance Ireland Limited to Greenlight Reinsurance Ireland Designated Activity Company.

This change does not affect the Company's assets or liabilities, its contracts, its authorisation to conduct reinsurance business nor any other licences or consents that the Company may have. The Company continues in existence in a new form that is very similar to the form it took before conversion. It is governed by slightly different company law rules than those that apply to a company limited by shares.

The Company is a wholly owned subsidiary of Greenlight Capital Re, Ltd., a company resident in the Cayman Islands. The largest and smallest group in which the financial statements of Greenlight Reinsurance Ireland, dac are consolidated is that headed by Greenlight Capital Re, Ltd. The consolidated financial statements of Greenlight Capital Re, Ltd. are publicly available on the website [www.greenlightre.ky](http://www.greenlightre.ky).

#### **2. ACCOUNTING POLICIES**

##### **2.1. Basis of accounting**

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The financial statements also comply with the European Communities (Insurance Undertakings; Financial Statements) Regulations, 2015. The financial statements are expressed in United States Dollars (US\$) which is the Company’s functional currency and have been prepared on the historical cost basis. The carrying value of all assets and liabilities recorded in the statements of financial position approximates their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. The estimated and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Certain critical accounting judgements in applying the Company’s policies are detailed below.

## **Greenlight Reinsurance Ireland, dac**

### **Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

#### **Estimation of employee bonus**

Under the Company's bonus program, each employee's target bonus consists of two components: a discretionary component based on a qualitative assessment of each employee's performance and a quantitative component based on the return on deployed equity ("RODE") for each underwriting year relating to reinsurance operations. The qualitative portion of an employee's annual bonus is accrued at each employee's target amount, which may differ significantly from the actual amount approved and awarded annually. The quantitative portion of each employee's annual bonus is accrued based on the expected RODE for each underwriting year and adjusted for changes in the expected RODE and actual investment return each quarter until all losses are settled and the underwriting year is declared closed. The quantitative bonus is calculated and paid in annual instalments between three to five years from the end of the fiscal year in which the business was underwritten. Any further changes are incorporated into the following open underwriting year. The expected RODE calculation utilizes proprietary models which require significant estimation and judgment. Actual RODE may vary significantly from the expected RODE and any adjustments to the quantitative bonus estimates, which may be material, are recorded in the period in which they are determined.

#### **Loss reserves**

The Company establishes reserves for contracts based on estimates of the ultimate cost of all losses including losses incurred but not reported ("IBNR") that are dependent on actuarial judgement and assumptions. These are discussed in more detail in note 2.6.

#### **2.2. New accounting policies**

##### **a) New standards, interpretations and amendments effective from 1 January 2016**

One new interpretation and a number of amendments are effective for the first time for periods beginning on (or after) 1 January 2016, and have been adopted in these financial statements. Note: neither the interpretation nor the amendments effective for the first time for periods beginning on (or after) 1 January 2016 affect the Company's annual financial statements.

##### **b) New standards, interpretations and amendments not yet effective**

None of the new standards, interpretations and amendments, which are effective for periods beginning after 1 January 2016 and which have not been adopted early, are expected to have a material effect on the Company's future financial statements.

#### **2.3. Revenue recognition**

The Company estimates the ultimate premiums for the entire contract period. These estimates are based on information received from the ceding companies and estimates from actuarial pricing models used by the Company. For excess of loss contracts, the total ultimate estimated premiums are recorded as premiums written at the inception of the contract. For quota share contracts, the premiums are recorded as written based on cession statements from cedents which typically are received monthly or quarterly depending on terms specified in each contract. For any reporting lag, premiums written are estimated based on the portion of the ultimate estimated premiums relating to the risks underwritten during the lag period.

Changes in premium estimates, including premium receivable on both excess of loss and quota share contracts are expected and may result in significant adjustments in any period. These estimates change over time as additional information regarding the underlying business volume is obtained. Any subsequent adjustments arising on such estimates are recorded in the period in which they are determined.

Premiums written are generally recognised as earned over the contract period in proportion to the period of risk covered. Unearned premiums consist of the unexpired portion of reinsurance provided.

Investment income is included in the statements of comprehensive income on an accrual basis.

## **Greenlight Reinsurance Ireland, dac**

### **Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

#### **2.4 Reinsurance Premiums Ceded**

The Company reduces the risk of future losses on business assumed by reinsuring certain risks and exposures with other reinsurers (retrocessionaires). The Company remains liable to the extent that any retrocessionaire fails to meet its obligations and to the extent the Company does not hold sufficient security for their unpaid obligations.

Ceded premiums are written during the period in which the risks incept and are expensed over the contract period in proportion to the period of protection. Unearned premiums ceded consist of the unexpired portion of reinsurance obtained.

#### **2.5 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 amortised 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 recognised. At 31 December 2016 and 2015, the deferred acquisition costs were considered fully recoverable and no premium deficiency loss was recorded.

#### **2.6. Insurance losses and reserves and recoverables - technical provisions**

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. Changes in estimates are reflected in the results of operations in the period in which the estimates are changed. The Company does not discount its loss reserves.

Loss reserves 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 collect the losses recoverable amounts due to the retrocessionaires' inability to pay. Unallocated loss adjustor provision is established to cover the expected cost incurred in order to fully settle reserves for claims outstanding. The Company regularly evaluates the financial condition of its retrocessionaires and records provisions for uncollectible reinsurance expenses recoverable when recovery is no longer probable.

#### **2.7. Financial Assets**

The Company's financial instruments are carried at fair value, and all unrealised gains or losses are included in investment income in the statements of comprehensive income in accordance with International Accounting Standard 39, Financial Instruments: Recognition and Measurement, ("IAS 39") and International Financial Reporting Standard 7, Financial Instruments: Disclosures, ("IFRS 7").

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

The Company's investments in debt instruments and equity securities that are classified as "trading securities" are carried at fair value. The fair values of the listed equity 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).

## **Greenlight Reinsurance Ireland, dac**

### **Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

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 maximises 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 realised and unrealised gains or losses are determined on the basis of the specific identification method (by reference to cost or amortised cost, as appropriate) and included in investment income in the statements of comprehensive 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.

#### **Derivatives**

IFRS requires that an entity recognise all derivatives in the statements of financial position at fair value. It also requires that unrealised 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 derivatives do not qualify as hedges for financial reporting purposes.

##### *Derivative Contracts*

The Company enters into derivative contracts with counterparties as part of its investment strategy. Derivative contracts which may include total return swaps, credit default swaps ("CDS") purchased, futures, options, currency forwards and other derivative instruments are recorded at their fair value with any unrealised gains and losses included in investment income in the statements of comprehensive income. Derivative 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. Derivative contracts payable represents derivative contracts whereby, based upon each 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 statements of financial position as derivative contracts receivable and derivative 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 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 unrealised gains and losses reflected in investment income in the statements of comprehensive income. Additionally, any changes in the value of amounts received or paid on swap contracts are reported as a gain or loss in investment income in the statements of comprehensive income.

Derivative 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 measured 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.

## **Greenlight Reinsurance Ireland, dac**

### **Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

The Company may purchase CDS for efficient portfolio management and strategic investment purposes. Effective July 27, 2016 the Company's investment guidelines prohibit the sale of CDS. 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).

#### **2.8. Fixed Assets**

Fixed assets are included in the statements of financial position and are recorded at cost when acquired, less accumulated depreciation. Fixed assets are comprised of furniture and fixtures and leasehold improvements and are depreciated, using the straight-line method, over their estimated useful lives, which are five years for furniture and fixtures. Leasehold improvements are amortised over the lesser of the estimated useful lives of the assets or remaining lease term.

#### **2.9. Taxation**

The income tax benefit represents the sum of the tax currently receivable and deferred tax. Any tax currently payable is provided on taxable profits at current attributable rates.

Deferred tax is calculated on all timing differences that have originated but not reversed as of the date of the statement of financial position where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the statements of financial position date.

Timing differences are temporary differences between profits as computed for tax purposes and profits as stated in the financial statements which arise because certain items of income and expenditure in the financial statements are dealt with in different years for tax purposes.

Deferred tax liabilities are recognised in full in respect of net unfavourable timing differences. Deferred tax assets in respect of net favourable timing differences, including taxation losses available for carry forward, are recognised only when it is considered more probable than not that there will be suitable taxable profits from which the future reversal of timing differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the statements of financial position date. Deferred tax is not discounted.

#### **2.10. Currency**

The reporting and functional currency of the Company is the U.S. dollar (US\$). Transactions in foreign currencies are recorded in U.S. dollars at the exchange rates in effect on the transaction date. Monetary assets and liabilities in foreign currencies at the statements of financial position date are translated at the exchange rate in effect at the statements of financial position date and translation exchange gains and losses, if any, are included in the statements of comprehensive income.

#### **2.11. Provisions and Contingencies**

No general provisions or contingencies are included in the financial statements in accordance with IAS 37 ("Provisions, contingent liabilities and contingent assets").

## **Greenlight Reinsurance Ireland, dac**

### **Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

#### **2.12. Interest in investment advisory agreement**

Effective January 1, 2017, the Company, its parent and an affiliate were party to an investment advisory agreement (the "Investment Agreement") with DME Advisors, LP ("DME Advisors") under which the participants and DME Advisors, LLC ("DME") are participants of a joint venture for the purpose of managing certain jointly held assets in accordance with the Company's investment guidelines. The agreement, which replaces the previous agreement dated January 1, 2014, expires on December 31, 2019 and will renew automatically for successive three-year periods, unless at least 90 days prior to the end of the then current term, DME notifies the other participants of its desire to terminate the venture agreement or any other participant notifies DME of its desire to withdraw from the venture agreement. Simultaneously with the venture agreement, the Company entered into an amended and restated investment advisory agreement (the "advisory agreement") with DME Advisors to provide discretionary advisory services relating to the assets and liabilities of the venture. The advisory agreement term period mirrors that of the venture agreement.

DME Advisors' principal place of business is New York, USA. The Company has stated its interest in this agreement based on the percentage of its interests under the terms of the agreement. The Company's share of the assets, liabilities, income and expenses under the agreement (6.18% and 6.85% at 31 December 2016 and 2015, respectively) are reported in the Company's financial statements.

#### **2.13. Share-based compensation**

The Company's employees are part of a group stock incentive plan, whereby the Company receives services from the employees but has no obligation to settle the share-based compensation transactions. In accordance with IFRS 2, the Company accounts for the group share-based payment transactions as equity-settled share-based payment transactions and recognises the increase in equity as a capital contribution from the parent. The Company measures the stock-based compensation expense for restricted stock awards based on the market price of the parent's common shares at the grant date and the expense is recognised on a straight line basis over the vesting period which is currently three years.

#### **2.14. Operating lease**

The Company has leased office space which has been classified as an operating lease. Operating leases are not recognised in the Company's statements of financial position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease expense, over the term of the lease.

#### **2.15. Segments**

The Company manages its business on the basis of one operating segment, Property and Casualty Reinsurance. Therefore no separate segment disclosures are considered necessary.

The Company manages the concentration risk and counter party risk of its cedents by being highly selective in the contracts it chooses to underwrite and spending a significant amount of time with the cedents and brokers to understand the risks and appropriately structure the contracts. Through profit commissions, self-insured retentions, co-participation, reinstatement premiums or other terms within the contract, the Company's clients are provided with an incentive to manage the Company's interests. While brokers do not have the authority to bind any reinsurance contract on behalf of the Company, brokerage firms are monitored for their quality and financial strength on a regular basis.

**Greenlight Reinsurance Ireland, dac**

**Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

**3. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION**

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
This is stated after charging/(crediting):		
Loss on foreign currencies	117,021	228,548
Operating lease expense	129,168	74,152
Depreciation expense	49,115	64,937
Auditors' remuneration - audit	22,154	13,678
Auditors' remuneration - tax	4,405	5,423
Market value adjustment in value of investments	12,925,335	(16,105,048)
Directors' remuneration	73,258	70,374

The directors' remuneration disclosed represents the total compensation paid to key management personnel.

**4. EMPLOYEE COSTS AND NUMBERS**

At 31 December 2016, the Company's salary and benefit expenses of \$1,621,728 (2015: \$1,347,495) related to employee compensation based on salary, termination payments, health benefits, pension benefits, PRSI and group stock compensation in the form of restricted share units of the parent.

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Wages and salaries	1,478,943	949,935
Social insurance costs	110,018	91,019
Health benefits	22,528	22,853
Pension benefits	76,552	51,346
Group stock incentive	(70,982)	226,058
Life and disability benefit	4,669	6,284
	<u>1,621,728</u>	<u>1,347,495</u>

During the year ended 31 December 2016, 7,444 (2015: 6,821) restricted shares units ("RSU") of the parent were granted to the Company's personnel under the group stock incentive plan. These RSUs contain certain restrictions relating to, among other things, vesting, forfeiture in the event of termination of employment and transferability. Each of these RSUs cliff vest after three years from the date of grant, subject to the employee's continued service with the Company. On the vesting date, the RSUs convert into one Class A ordinary share of the parent. The RSUs granted had a weighted average grant date fair value of US\$21.56 per share. The Company recorded US\$(70,981) (2015: US\$226,058) of share-based compensation expense (recovery) net of forfeitures, relating to the restricted share units for the year ended 31 December 2016. The recovery for the year ended December 31, 2016 was due to reversal of share-based compensation expense previously recorded on RSUs that were forfeited during 2016.

The average number of employees for the financial year 2016 was five. (2015: five).

**Greenlight Reinsurance Ireland, dac**

**Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

**5. INCOME TAX EXPENSE**

(a) Analysis of tax charge

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Irish corporation tax charge (benefit)	501,893	(1,763,093)

(b) Reconciliation of effective tax rate

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Profit (loss) for financial year after tax	3,179,249	(12,846,922)
Tax charge (benefit) for the year	501,893	(1,763,093)
Profit (loss) excluding tax	3,681,142	(14,610,015)
Tax using the standard rate of corporation tax in Ireland of 12.5%	460,143	(1,826,252)
Tax effect on deductible temporary differences	1,288	3,266
Tax effect on non-deductible expenses	31,384	59,042
Change in deferred taxes	1,978	(2,136)
Under provided in prior years	7,100	2,987
Tax charge (benefit) for year	501,893	(1,763,093)

(c) Deferred tax balances

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Deferred tax balance, opening	1,730,382	1,130
Accelerated capital allowances and other fixed asset differences	1,288	2,136
Tax losses (utilised) carried forward in current year	(501,893)	1,727,116
Other temporary differences	42,375	—
Deferred tax balance, closing	1,272,152	1,730,382

The deferred tax asset of US\$1,272,152 (2015: \$1,730,382) relates to timing differences arising on retained losses carried forward to be recoverable against future taxable profits. There were no unrecognised deferred tax liabilities at year end 31 December 2016 and 2015.

At 31 December 2016, the Company reported tax receivable of US\$0 (2015: US\$525,976), and a deferred tax asset of US\$1,272,152 (2015: US\$1,730,382) primarily relating to net operating losses carried forward. At 31 December 2016, the Company had a net operating loss carry-forward of US\$10,146,463 (2015: US\$14,088,122) which can be carried forward indefinitely under Irish tax law. Based on the likelihood of the Company generating sufficient taxable income to realize the future tax benefit, management believes it is more likely than not that the deferred tax asset and taxes recoverable will be fully realized in the future and therefore no valuation allowance has been recorded.

## **Greenlight Reinsurance Ireland, dac**

### **Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

In evaluating the Company's ability to recover the deferred tax assets, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of future and recent operations. In projecting future taxable income, the Company uses the financial projections, plans and estimates used by the Company to manage the underlying business. The Company considers a five year time horizon to evaluate the recoverability of the deferred tax assets.

#### **6. CALLED UP SHARE CAPITAL**

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Authorised 1,000,000,000 Ordinary shares of US\$ 0.10 each	10,000,000	10,000,000
Allotted, called up and fully paid 100,000,000 Ordinary shares of US\$ 0.10 each	10,000,000	10,000,000

One Ordinary share was issued at US\$0.10 on 7 September 2009 (the date of incorporation) and an additional 99,999,999 Ordinary shares were subsequently issued on 31 August 2010, also at US\$0.10.

#### **7. CAPITAL AND RESERVES**

##### **Capital management**

The Company's policy is to maximise value for its shareholder by ensuring that the Company's financial resources are allocated efficiently. The Company's capital management tools may include, but are not limited to, capital contribution from parent, retrocession transactions, aggregate stop loss contracts, adverse loss development covers, quota share contracts, and re-allocation of invested assets between cash, fixed income and equity securities. The Company also manages its capital and surplus to satisfy statutory, regulatory and rating agency requirements.

Effective for fiscal year 2016, the Company is required to report its capital position under Solvency II, a new EU-wide insurance regulatory regime. Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry. It has established a revised set of EU-wide capital requirements and risk management standards that came into force on 1 January 2016.

At 31 December 2016, the Company reported an estimated Solvency II capital surplus of \$52,371,949 which gives coverage of 132% over the solvency capital requirement (SCR). The Company uses the standard formula model to calculate the SCR. The SCR represents the Value-at-Risk of basic own funds subject to a confidence level of 99.5 % over a one-year period and covers existing business and all new business expected to be written over the next 12 months.

As of 31 December 2016, the Company has been in compliance with the capital requirements required under the Irish Insurance Acts and Regulations.

The Company's capital comprises total equity of US\$53,426,150 (2015: US\$50,317,882) analysis of which is detailed in the Statement of Changes in Equity.

##### **Capital contribution**

During the year ended 31 December 2016, US\$(70,981) (2015: US\$226,058) of the group share based benefit expense was recognised in the Company's equity as capital contribution from the parent.

# **Greenlight Reinsurance Ireland, dac**

## **Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

### **8. FINANCIAL INVESTMENTS**

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.

Purchases and sales of investments are disclosed in the statements of cash flows. Net realised gains (losses) on the sale of investments, derivative contracts, and investments sold, not yet purchased during the period were US\$(7,804,155) (2015: US \$1,090,938). Gross realised gains were US\$12,182,508 (2015: US\$20,893,280) and gross realised losses were US\$19,986,663 (2015: US\$19,802,342). For the year ended 31 December 2016, included in investment income in the statements of comprehensive income was US\$12,925,335 of net unrealised gains (2015: US(16,105,048) of net unrealised losses) relating to trading securities still held at the statements of financial position dates.

The following table presents the Company's investments, categorised by the level of the fair value hierarchy as of 31 December 2016:

Description	Fair Value Measurements as of 31 December 2016			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	US\$	US\$	US\$	US\$
Assets:				
Debt instruments	—	1,347,847	40,391	1,388,238
Listed equity securities	41,842,698	1,271,325	—	43,114,023
Commodities	5,427,978	—	—	5,427,978
Private and unlisted equity securities	—	—	1,066,684	1,066,684
Total investments	47,270,676	2,619,172	1,107,075	50,996,923
Derivative contracts receivable	1,217	4,640,257	—	4,641,474
Liabilities:				
Listed equity securities, sold not yet purchased	(47,582,389)	—	—	(47,582,389)
Debt instruments, sold not yet purchased	—	(5,537,097)	—	(5,537,097)
Total securities sold, not yet purchased	(47,582,389)	(5,537,097)	—	(53,119,486)
Derivative contracts payable	—	(138,183)	—	(138,183)

**Greenlight Reinsurance Ireland, dac**

**Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

The following table presents the Company's investments, categorised by the level of the fair value hierarchy as of 31 December 2015:

Description	Fair Value Measurements as of 31 December 2015			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	US\$	US\$	US\$	US\$
Assets:				
Debt instruments	—	2,642,314	34,594	2,676,908
Listed equity securities	61,662,942	385,259	—	62,048,201
Commodities	6,034,366	—	—	6,034,366
Private and unlisted equity securities	—	—	1,338,033	1,338,033
Total investments	67,697,308	3,027,573	1,372,627	72,097,508
Derivative contracts receivable	1,394	903,643	—	905,037
Liabilities:				
Listed equity securities, sold not yet purchased	(55,369,914)	—	—	(55,369,914)
Debt instruments, sold not yet purchased	—	(5,097,073)	—	(5,097,073)
Total securities sold, not yet purchased	(55,369,914)	(5,097,073)	—	(60,466,987)
Derivative contracts payable	(33,407)	(1,900,988)	—	(1,934,395)

The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) as of 31 December 2016:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Year ended December 31, 2016		
	Assets		
	Debt instruments	Private and unlisted equity securities	Total
	US\$	US\$	US\$
Beginning balance	34,594	1,338,033	1,372,627
Purchases	—	168,650	168,650
Sales	—	(520,519)	(520,519)
Total realized and unrealized gains (losses) included in earnings, net	5,797	80,520	86,317
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Ending balance	40,391	1,066,684	1,107,075

There were no transfers between Level 1, Level 2 or Level 3 during the year ended December 31, 2016.

**Greenlight Reinsurance Ireland, dac**

**Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) as of 31 December 2015:

<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>						
<b>Year ended December 31, 2015</b>						
	<b>Assets</b>				<b>Liabilities</b>	
	<b>Debt instruments</b>	<b>Private and unlisted equity securities</b>	<b>Financial contracts receivable</b>	<b>Listed equity securities</b>	<b>Total</b>	<b>Financial contracts payable</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Beginning balance	1,056,827	817,561	—	—	1,874,388	—
Purchases	—	689,249	—	—	689,249	—
Sales	(1,009,222)	(208,881)	—	—	(1,218,103)	—
Total realized and unrealized gains (losses) included in earnings, net	(13,011)	40,104	(47,031)	(47,402)	(67,340)	21,509
Transfers into Level 3	—	—	173,680	355,447	529,127	605,198
Transfers out of Level 3	—	—	(126,649)	(308,045)	(434,694)	(626,707)
Ending balance	34,594	1,338,033	—	—	1,372,627	—

During the year ended 31 December 2015, \$355,447 of equity securities, listed on the Athens Stock Exchange (the "ASE"), were transferred from Level 1 to Level 3 securities due to trading being halted from June 26, 2015 to August 3, 2015 for all equity securities listed on the ASE. Since there was no active market with observable trading prices to determine the fair value of these securities, during this period these securities were valued based on the last trading price of these securities on the ASE and adjusted for the estimated decline in the fair value of American depository receipts of other comparable securities. When the ASE resumed trading on August 3, 2015, the fair values of the ASE listed equity securities were once again based on observable prices in an active market. Therefore, \$308,045 of listed equity securities trading on the ASE were transferred from Level 3 to Level 1 securities during the year ended 31 December 2015.

The fair values for derivatives for which the underlying securities traded on the ASE were also transferred to Level 3 securities during 2015 when the ASE halted trading, and were subsequently transferred out of Level 3 securities when the ASE resumed trading. Therefore, for the year ended 31 December 2015, \$173,680 and \$605,198 of financial contracts receivable and financial contracts payable, respectively, were transferred from Level 2 to Level 3 due to the fair values being based on unobservable inputs during the period that the ASE had halted trading. During the year ended 31 December 2015, \$126,649 of financial contracts receivable and \$626,707 of financial contracts payable, respectively, were transferred from Level 3 to Level 2 as fair values were based on observable inputs once the ASE resumed trading.

There were no other transfers between Level 1, Level 2 or Level 3 during the year ended December 31, 2015.

**Greenlight Reinsurance Ireland, dac**

**Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

**Investments**

*Debt instruments, trading*

At 31 December 2016, the following investments were included in debt instruments:

<b>2016</b>	<b>Cost/ amortised cost</b>	<b>Unrealised gains</b>	<b>Unrealised losses</b>	<b>Fair Value</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Corporate debt	1,445,702	402,123	(459,587)	1,388,238
Sovereign debt	—	—	—	—
Total debt	<u>1,445,702</u>	<u>402,123</u>	<u>(459,587)</u>	<u>1,388,238</u>

At 31 December 2015, the following investments were included in debt instruments:

<b>2015</b>	<b>Cost/ amortised cost</b>	<b>Unrealised gains</b>	<b>Unrealised losses</b>	<b>Fair Value</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Corporate debt	1,902,751	10,635	(500,967)	1,412,419
Sovereign debt	1,211,383	83,894	(30,788)	1,264,489
Total debt	<u>3,114,134</u>	<u>94,529</u>	<u>(531,755)</u>	<u>2,676,908</u>

The maturity distribution for debt instruments held at 31 December 2016 is as follows:

	<b>Cost/ amortised cost</b>	<b>Fair value</b>
	<b>US\$</b>	<b>US\$</b>
Within one year	—	—
From one to five years	1,099,784	1,204,084
From five to ten years	287,196	143,763
More than ten years	58,722	40,391
	<u>1,445,702</u>	<u>1,388,238</u>

The maturity distribution for debt instruments held at 31 December 2015 is as follows:

	<b>Cost/ amortised cost</b>	<b>Fair value</b>
	<b>US\$</b>	<b>US\$</b>
Within one year	—	—
From one to five years	287,788	282,802
From five to ten years	1,290,298	1,012,200
More than ten years	1,536,048	1,381,906
	<u>3,114,134</u>	<u>2,676,908</u>

**Greenlight Reinsurance Ireland, dac**

**Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

*Investment in Equity Securities, Trading*

At 31 December 2016, the following long positions were included in investment securities, trading:

<b>2016</b>	<b>Cost</b>	<b>Unrealised gains</b>	<b>Unrealised losses</b>	<b>Fair value</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Equities - listed	38,063,801	5,977,259	(1,885,478)	42,155,582
Exchange traded funds	930,069	28,372	—	958,441
	<u>38,993,870</u>	<u>6,005,631</u>	<u>(1,885,478)</u>	<u>43,114,023</u>

At 31 December 2015, the following long positions were included in investment securities, trading:

<b>2015</b>	<b>Cost</b>	<b>Unrealised gains</b>	<b>Unrealised losses</b>	<b>Fair Value</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Equities - listed	69,268,745	4,596,397	(12,867,591)	60,997,551
Exchange traded funds	2,162,126	—	(1,111,476)	1,050,650
	<u>71,430,871</u>	<u>4,596,397</u>	<u>(13,979,067)</u>	<u>62,048,201</u>

*Other Investments*

“Other investments” include commodities and private and unlisted equity securities. As of 31 December 2016 and 2015, commodities were comprised of gold bullion.

At 31 December 2016, the following securities were included in other investments:

	<b>Cost</b>	<b>Unrealised gains</b>	<b>Unrealised losses</b>	<b>Fair Value</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Commodities	5,140,997	286,981	—	5,427,978
Private and unlisted equity securities	798,003	270,285	(1,604)	1,066,684
	<u>5,939,000</u>	<u>557,266</u>	<u>(1,604)</u>	<u>6,494,662</u>

At 31 December 2016, the Company had outstanding commitments to invest an additional \$568,926 in private equity securities.

At 31 December 2015, the following securities were included in other investments:

	<b>Cost</b>	<b>Unrealised gains</b>	<b>Unrealised losses</b>	<b>Fair Value</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Commodities	6,223,883	—	(189,517)	6,034,366
Private and unlisted equity securities	1,179,355	239,075	(80,397)	1,338,033
	<u>7,403,238</u>	<u>239,075</u>	<u>(269,914)</u>	<u>7,372,399</u>

At 31 December 2015, the Company had outstanding commitments to invest an additional \$418,223 in private equity securities.

## Greenlight Reinsurance Ireland, dac

### Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued

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

Securities sold, not yet purchased are securities that the Company has sold, but does not own, in anticipation of a decline in the market value of the security. The Company's risk is that the value of the security will increase rather than decline. Consequently, the settlement amount of the liability for securities sold, not yet purchased may exceed the amount recorded in the statements of financial position as the Company is obligated to purchase the securities sold, not yet purchased in the market at prevailing prices to settle its obligations. To sell a security, not yet purchased, the Company needs to borrow the security for delivery to the buyer. On each day the transaction is open, the liability for the obligation to replace the borrowed security is marked-to-market and an unrealised gain or loss is recorded. At the time the transaction is closed, the Company realises a gain or loss equal to the difference between the price at which the security was sold and the cost of replacing the borrowed security. While the transaction is open, the Company will also incur an expense for any dividends or interest which will be paid to the lender of the securities.

At 31 December 2016, the following securities were included in investments in securities sold, not yet purchased:

2016	Proceeds	Unrealised gains	Unrealised losses	Fair Value
	US\$	US\$	US\$	US\$
Equities - listed	(42,640,695)	1,900,665	(6,842,359)	(47,582,389)
Debt instruments	(5,944,521)	407,424	—	(5,537,097)
	<u>(48,585,216)</u>	<u>2,308,089</u>	<u>(6,842,359)</u>	<u>(53,119,486)</u>

At 31 December 2015, the following securities were included in investments in securities sold, not yet purchased:

2015	Proceeds	Unrealised gains	Unrealised losses	Fair Value
	US\$	US\$	US\$	US\$
Equities - listed	(55,707,700)	7,017,700	(6,679,914)	(55,369,914)
Debt instruments	(5,303,792)	206,719	—	(5,097,073)
	<u>(61,011,492)</u>	<u>7,224,419</u>	<u>(6,679,914)</u>	<u>(60,466,987)</u>

#### Derivative Contracts

As of 31 December 2016 and 2015, the Company had entered into total return equity swaps, interest rate swaps, commodity swaps, options, warrants, rights, futures and forward contracts with various financial institutions to meet certain investment objectives. Under the terms of each of these derivative 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.

**Greenlight Reinsurance Ireland, dac**

**Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

At 31 December 2016, the fair values of derivative contracts outstanding were as follows:

Derivative Contracts	Listing Currency (1)	Notional amount of underlying instruments	Fair value of net assets (obligations) on derivative contracts
		US\$	US\$
<b>Derivative contracts receivable</b>			
Call Options (2)	USD	8,308,276	1,637,511
Total return swaps - commodities	USD	4,517,516	757,440
Interest rate swaps	JPY	1,265,741	13,472
Put options (2)	USD	7,133,731	414,094
Total return swaps - equities	EUR/GBP/USD	6,189,713	1,816,924
Warrants and rights on listed equities	EUR/USD	4,161	2,033
Total derivative contracts receivable, at fair value			4,641,474
<b>Derivative contracts payable</b>			
Forwards	KRW	424,974	(7,294)
Put options	USD	50,367	(10,594)
Total return swaps - equities	EUR/GBP/KRW/ RON/USD	1,930,868	(120,295)
Total derivative contracts receivable, at fair value			(138,183)

<sup>(1)</sup> USD = US Dollar; EUR = Euro; GBP = British Pound; JPY = Japanese Yen; KRW = Korean Won; RON = Romanian New Leu.

<sup>(2)</sup> Includes options on the Japanese Yen and the Chinese Yuan, denominated in U.S. dollars.

**Greenlight Reinsurance Ireland, dac**

**Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

At 31 December 2015, the fair values of derivative contracts outstanding were as follows:

2015 Derivative Contracts	Listing Currency (1)	Notional amount of underlying instruments	Fair value of net assets (obligations) on derivative contracts
		US\$	US\$
<b>Derivative contracts receivable</b>			
Call Options (2)	USD	323,661,216	44,961
Put options (3)	USD	10,089,847	602,021
Total return swaps - equities	EUR/GBP/USD	3,438,345	256,571
Warrants and rights on listed equities	EUR	4,069	1,484
Total derivative contracts receivable, at fair value			905,037
<b>Derivative contracts payable</b>			
Total return swaps - commodities	USD	2,887,415	(875,935)
Call Options	USD	178,116	(4,375)
Futures	USD	1,451,568	(33,407)
Forwards	KRW	199,174	(1,122)
Total return swaps - equities	EUR/GBP/HKD/ MXN/RON/USD	4,922,390	(1,019,556)
Total derivative contracts receivable, at fair value			(1,934,395)

<sup>(1)</sup> USD = US Dollar; EUR = Euro; GBP = British Pound; HKD = Hong Kong Dollar; KRW = Korean Won; MXN = Mexican Peso; RON = Romanian New Leu.

<sup>(2)</sup> Includes options on interest rate futures relating to U.S. dollar LIBOR interest rates.

<sup>(3)</sup> Includes options on the Japanese Yen and the Chinese Yuan, denominated in U.S. dollars.

The Company is exposed to credit risk in relation to counterparties that may default on their obligations to the Company. The amount of counterparty credit risk predominantly relates to the value of derivative contracts receivable and assets held at counterparties. The Company mitigates its counterparty credit risk by using several counterparties which decreases the likelihood of any significant concentration of credit risk with any one counterparty. In addition, the Company is exposed to credit risk on corporate and sovereign debt instruments to the extent that the debtors may default on their debt instruments.

The Company is exposed to market risk including interest rate and foreign exchange fluctuations on financial instruments that are valued at market prices. Market movements can be volatile and difficult to predict. This may affect the ultimate gains or losses realised upon the sale of its holdings, as well as the amount of net investment income reported in the statements of comprehensive income. Management utilises the services of the Company's investment advisor to monitor the Company's positions to reduce the risk of potential loss due to changes in market values.

## Greenlight Reinsurance Ireland, dac

### Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued

#### Equity Price Risk

As of 31 December 2016, the Company's investment portfolio consisted primarily of long and short equity securities, along with certain equity-based derivative instruments, the carrying values of which are primarily based on quoted market prices. Generally, market prices of common equity securities are subject to fluctuation, which could cause the amount to be realised upon the closing of the position to differ significantly from the current reported value. This risk is partly mitigated by the presence of both long and short equity securities. As of 31 December 2016, a 10% decline in the price of each of these listed equity securities and equity-based derivative instruments would result in a US\$944,542, or 1.3%, decline in the fair value of the total investment portfolio.

Computations of the prospective effects of hypothetical equity price changes are based on numerous assumptions, including the maintenance of the existing level and composition of investment securities and should not be relied on as indicative of future results.

#### Commodity Price Risk

Generally, market prices of commodities are subject to fluctuation. The Company's investment portfolio periodically includes long or short investments in commodities or in derivatives directly impacted by fluctuations in the prices of commodities. As of 31 December 2016, the investment portfolio included unhedged exposure to changes in gold prices, through ownership of physical gold and derivative instruments with underlying exposure to changes in gold prices. Additionally, as of 31 December 2016 and 2015, the investment portfolio included derivative instruments with underlying exposure to changes in natural gas and oil prices.

The following table summarizes the net impact that a 10% increase and decrease in commodity prices would have on the value of the Company's investment portfolio as of 31 December 2016:

Commodity	10% increase in commodity prices		10% decrease in commodity prices	
	Change in fair value	Change in fair value as % of investment portfolio	Change in fair value	Change in fair value as % of investment portfolio
	US\$	%	US\$	%
Gold	174,230	0.2	(174,230)	(0.2)
Natural Gas	350,608	0.5	(350,608)	(0.5)
Oil	542,811	0.8	(542,811)	(0.8)
Total	1,067,649	1.5	(1,067,649)	(1.5)

The Company along with its investment advisor, periodically monitor the Company's exposure to any other commodity price fluctuations and generally do not expect changes in other commodity prices to have a materially adverse impact on the Company's operations.

#### Foreign Currency Risk

Certain of the Company's reinsurance contracts provide that ultimate losses may be payable or calculated in foreign currencies depending on the country of original loss. Foreign currency exchange rate risk exists to the extent that there is an increase in the exchange rate of the foreign currency in which losses are ultimately owed. As of 31 December 2016, the Company had net loss reserves reported in foreign currencies of £731,611. As of 31 December 2016, a 10% decrease in the U.S. dollar against the GBP (all else being constant) would result in additional estimated loss reserves of \$90,135. Alternatively, a 10% increase in the U.S. dollar against the GBP would result in a reduction of £90,135 in the Company's recorded loss reserves.

The Company does not seek to specifically match the liabilities under reinsurance policies that are payable in foreign currencies with investments denominated in such currencies; the Company continually monitor the exposure to potential foreign currency losses and would consider the use of forward foreign currency exchange contracts in an effort to mitigate against adverse foreign currency movements.

## Greenlight Reinsurance Ireland, dac

### Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued

The Company is exposed to foreign currency risk through cash, forwards, options and investments in securities denominated in currencies other than U.S. dollar. Foreign currency exchange rate risk is the potential for adverse changes in the U.S. dollar value of investments (long and short), speculative foreign currency options and cash positions due to a change in the exchange rate of the foreign currency in which cash and financial instruments are denominated. As of 31 December 2016, some of the Company's currency exposure resulting from foreign denominated securities (longs and shorts) was reduced by offsetting cash balances (shorts and longs) denominated in the corresponding foreign currencies.

The following table summarises the net impact that a 10% increase and decrease in the value of the United States dollar against select foreign currencies would have on the value of the Company's investment portfolio as of 31 December 2016:

Foreign Currency	10% increase in U.S. dollar		10% decrease in U.S. dollar	
	Change in fair value	Change in fair value as % of investment portfolio	Change in fair value	Change in fair value as % of investment portfolio
	US\$	%	US\$	%
British Pounds	(39,605)	(0.1)	39,605	0.1
Chinese Yuan	475,392	0.7	(250,172)	(0.4)
Japanese Yen	135,417	0.2	(125,785)	(0.2)
Other	27,437	—	(27,437)	—
Total	598,641	0.8	(363,789)	(0.5)

Computations of the prospective effects of hypothetical currency price changes are based on numerous assumptions, including the maintenance of the existing level and composition of investment in securities denominated in foreign currencies and related hedges, and should not be relied on as indicative of future results.

### Interest Rate Risk

The Company's investment portfolio includes interest rate sensitive securities, such as corporate and sovereign debt instruments, futures and interest rate options. The primary market risk exposure for any debt instrument is interest rate risk. As interest rates rise, the market value of the Company's long fixed-income portfolio falls, and the converse is also true as interest rates fall. The short fixed-income portfolio would benefit from rising interest rates and be negatively impacted from falling interest rates. Additionally, some of the Company's derivative investments may also be interest rate sensitive and their value may indirectly fluctuate with changes in interest rates.

The following table summarises the impact that a 100 basis point increase and decrease in interest rates would have on the value of the investment portfolio as of 31 December 2016:

	100 basis point increase in interest rates		100 basis point decrease in interest rates	
	Change in fair value	Change in fair value as % of investment portfolio	Change in fair value	Change in fair value as % of investment portfolio
	US\$	%	US\$	%
Debt instruments - long and short, net	976,370	1.4	(1,274,709)	(1.8)
Interest rate options	247,152	0.3	(497,995)	(0.7)
Net exposure to interest rate risk	1,223,522	1.7	(1,772,704)	(2.5)

## Greenlight Reinsurance Ireland, dac

### Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued

#### Credit Risk

The Company is exposed to credit risk primarily from the possibility that counterparties may default on their obligations to it. The amount of the maximum exposure to credit risk is indicated by the carrying value of the Company's financial assets including reinsurance balances receivable which were all current as of 31 December 2016.

In addition, the securities, commodities, and cash in the Company's investment portfolio are held with several prime brokers, subjecting the Company to the related credit risk from the possibility that one or more of them may default on their obligations to the Company. The Company closely and regularly monitors its concentration of credit risk with each prime broker and if necessary, transfer cash or securities between prime brokers to diversify and mitigate its credit risk. Other than the Company's investment in derivative contracts and corporate and government debt, if any, and the fact that the investments and majority of cash balances are held by prime brokers on behalf of the Company, there are no other significant concentrations of credit risk.

#### Liquidity Risk

As of 31 December 2016, the majority of the Company's investments were valued based on quoted prices in active markets for identical assets (Level 1). Given the Company's value-oriented long and short investment strategy, if equity markets decline, the obligations for covering short positions would also decline. Any reduction in the short portfolio would reduce the need for restricted cash and thereby cash would be freed up to be used for any purpose. Additionally, since the majority of the Company's invested assets are liquid, even in distressed markets, the invested assets can be liquidated to generate cash to pay claims, hence mitigating any liquidity risk.

#### Effects of Inflation

The Company does not believe that inflation has had or will have a material effect on its combined results of operations, except insofar as inflation may affect interest rates and the asset values in the Company's investment portfolio.

#### 9. CASH AND CASH EQUIVALENTS

	2016	2015
	US\$	US\$
Cash at bank	6,236,068	7,506,248
Cash held with brokers	14,639,354	—
Total cash and cash equivalents	20,875,422	7,506,248

Cash and cash equivalents which are held by the Company comprise cash at a non-US bank and cash and cash equivalents held with prime brokers. All cash equivalents have an original maturity of three months or less. The Company has no significant concentration of credit risk as the cash held with brokers is spread over a number of financial institutions.

#### 10. RESTRICTED CASH AND CASH EQUIVALENTS

The Company is required to maintain certain cash in segregated accounts with prime brokers and swap counterparties. The amount of restricted cash held by prime brokers is primarily used to support the liability created from securities sold, not yet purchased. Additionally, restricted cash and cash equivalent balances are held to collateralize regulatory trusts and letters of credit issued to cedents. The amount of cash encumbered varies depending on the market value of the securities sold, not yet purchased. In addition, swap counterparties require cash collateral to support the current value of any amounts that may be due to the counterparty based on the value of the underlying security.

	2016	2015
	US\$	US\$
Cash held by prime brokers relating to securities sold, not yet purchased	53,119,486	60,466,987
Cash held as collateral in trust accounts	7,393,694	—
Cash and cash equivalents held by swap counterparties	1,362,188	3,578,191
Total restricted cash and cash equivalents	61,875,368	64,045,178

**Greenlight Reinsurance Ireland, dac**

**Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

**11. FIXED ASSETS**

The following table provides a reconciliation of the carrying amount of fixed assets for the financial years ended 31 December 2016 and 2015.

	<b>Furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Cost</b>			
Opening balance at 1 January 2015	189,865	269,645	459,510
Additions	—	—	—
Disposals	—	—	—
Ending balance at 31 December 2015	189,865	269,645	459,510
Opening balance at 1 January 2016	189,865	269,645	459,510
Additions	—	—	—
Disposals	—	—	—
Ending balance at 31 December 2016	189,865	269,645	459,510
<b>Accumulated depreciation</b>			
Opening balance at 1 January 2015	129,741	92,129	221,870
Depreciation for the year	37,972	26,965	64,937
Ending balance at 31 December 2015	167,713	119,094	286,807
Opening balance at 1 January 2016	167,713	119,094	286,807
Depreciation for the year	22,152	26,964	49,116
Ending balance at 31 December 2016	189,865	146,058	335,923
<b>Carrying amounts</b>			
At 31 December 2015	22,152	150,551	172,703
At 31 December 2016	—	123,587	123,587

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 financial years ended 31 December 2016 and 2015, there were no impairments in fixed assets.

**12. INVESTMENT INCOME**

A summary of net investment income for the financial years ended 31 December 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Realised gains and change in unrealised gains and losses, net	5,299,456	(14,817,106)
Interest and dividend income	1,793,232	1,147,593
Interest, dividend and other expenses	(1,785,307)	(2,075,983)
Investment advisor compensation	(1,538,374)	(1,197,090)
Investment income	3,769,007	(16,942,586)

## Greenlight Reinsurance Ireland, dac

### Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued

Investment returns are calculated monthly and compounded to calculate the annual returns. The resulting actual investment income may vary depending on cash flows into or out of the investment account. For the year ended 31 December 2016, investment income, net of all fees and expenses, resulted in a gain of 5.4% on the investment portfolio. This compares to a loss of 18.4% for the year ended 31 December 2015.

### 13. TECHNICAL PROVISIONS

	<b>Loss reserves</b>	<b>Unearned premiums</b>
	<b>2016 US\$</b>	
At start of period	32,276,572	26,797,261
Gross change during the period	8,619,609	369,262
<b>At end of period</b>	<b>40,896,181</b>	<b>27,166,523</b>
Reinsurance recoverable	(13,899,709)	(8,353,812)
Net	26,996,472	18,812,711
	<b>2015 US\$</b>	
At start of period	27,377,331	25,362,012
Gross change during the period	13,766,411	9,384,997
<b>At end of period</b>	<b>41,143,742</b>	<b>34,747,009</b>
Reinsurance recoverable	(8,867,170)	(7,949,748)
Net	32,276,572	26,797,261
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	
Known claims reserves	18,900,344	19,472,994
IBNR reserves	21,995,837	21,670,748
Total loss reserves	40,896,181	41,143,742

## Greenlight Reinsurance Ireland, dac

### Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued

Claims developments on all of the coverages is shown below as at 31 December 2016:

	2010	2011	2012	2013	2014	2015	2016	Total
	US\$							
Estimate of cumulative gross claims								
At December 2010	58,048	—	—	—	—	—	—	58,048
At December 2011	14,055,137	1,056,998	—	—	—	—	—	15,112,135
At December 2012	20,185,379	19,196,040	1,899,163	—	—	—	—	41,280,582
At December 2013	19,835,136	26,529,048	48,981,320	2,796,345	—	—	—	98,141,849
At December 2014	19,813,699	25,994,707	64,443,873	30,047,741	14,592,233	—	—	154,892,253
At December 2015	19,799,220	26,111,766	63,684,366	33,799,872	57,205,953	16,603,630	—	217,204,807
At December 2016	19,799,220	25,800,112	63,136,393	33,639,956	63,287,572	48,696,652	24,423,309	278,783,214
Cumulative payments	(19,799,220)	(25,370,281)	(62,033,845)	(32,608,185)	(56,136,782)	(33,463,147)	(8,475,573)	(237,887,033)
Reserve at 31 December 2016	—	429,831	1,102,548	1,031,771	7,150,790	15,233,505	15,947,736	40,896,181
Estimate of cumulative reinsurance recoveries								
At December 2010	—	—	—	—	—	—	—	—
At December 2011	—	(615,804)	—	—	—	—	—	(615,804)
At December 2012	—	(2,817,183)	(381,246)	—	—	—	—	(3,198,429)
At December 2013	—	(3,348,548)	(1,542,363)	(1,205,027)	—	—	—	(6,095,938)
At December 2014	—	(2,920,029)	(1,464,851)	(1,340,960)	(3,271,846)	—	—	(8,997,686)
At December 2015	—	(3,072,119)	(1,422,594)	(1,404,828)	(4,885,631)	(3,056,003)	—	(13,841,175)
At December 2016	—	(2,876,850)	(1,199,382)	(1,389,761)	(4,405,726)	(7,869,727)	(3,338,209)	(21,079,655)
Cumulative payments received	—	2,536,622	1,034,037	1,389,761	1,047,314	948,010	224,202	7,179,946
Reserve at 31 December 2016	—	(340,228)	(165,345)	—	(3,358,412)	(6,921,717)	(3,114,007)	(13,899,709)
Estimate of cumulative net claims								
At December 2010	58,048	—	—	—	—	—	—	58,048
At December 2011	14,055,137	441,194	—	—	—	—	—	14,496,331
At December 2012	20,185,379	16,378,857	1,517,917	—	—	—	—	38,082,153
At December 2013	19,835,136	23,180,500	47,438,957	1,591,318	—	—	—	92,045,911
At December 2014	19,813,699	23,074,678	62,979,022	28,706,781	11,320,387	—	—	145,894,567
At December 2015	19,799,220	23,039,647	62,261,772	32,395,044	52,320,322	13,547,627	—	203,363,632
At December 2016	19,799,220	22,923,262	61,937,011	32,250,195	58,881,846	40,826,925	21,085,100	257,703,559
Cumulative net payments	(19,799,220)	(22,833,659)	(60,999,808)	(31,218,424)	(55,089,468)	(32,515,137)	(8,251,371)	(230,707,087)
Total per statement of financial position	—	89,603	937,203	1,031,771	3,792,378	8,311,788	12,833,729	26,996,472

**Uncertainties and contingencies.** The uncertainties arising under insurance contracts are characterised under item 2.3 *Revenue recognition* and 2.6 *Insurance losses and reserve and recoverables - technical provisions*.

**Claims development.** For the year ended 31 December 2016, unfavourable loss development on prior year contracts amounted to US\$80,668 (2015: \$80,299 favourable) based on updated data received from the cedents and a reassessment in connection with the quarterly reserve analysis conducted by the Company.

**Unallocated loss adjustor provision.** For the year ended 31 December 2016, US\$155,943 (2015: \$150,828) had been accrued for unallocated loss adjustment expense.

**Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

**14. RETROCESSION**

Loss reserves recoverable from the retrocessionaires are recorded as assets. Retrocession contracts do not relieve the Company from its obligations to the insureds. Failure of retrocessionaires to honour their obligations could result in losses to the Company. The Company currently has two retrocession coverages that provide for recovery of a portion of loss and loss expenses incurred on certain contracts. At 31 December 2016, the Company had loss reserves recoverable of US\$13,899,709 (2015: \$8,867,170) with an affiliated retrocessionaire rated "A- (Excellent)" by A.M. Best. The Company regularly evaluates the financial condition of its retrocessionaires to assess the ability of the retrocessionaires to honour their obligations. At 31 December 2016 and 2015, no provision for uncollectible losses recoverable was considered necessary.

**15. INVESTMENT ADVISORY AGREEMENT - RELATED PARTY TRANSACTION**

At 31 December 2016, the Company, its parent, an affiliate and DME were party to an Investment Agreement with DME Advisors, under which the participants and DME Advisors created a joint venture for the purpose of managing certain jointly held assets. DME Advisors is a related party and an affiliate of David Einhorn, Chairman of the parent Company's Board of Directors.

Pursuant to the Investment Agreement, performance allocation equal to 20% of the net income of the participants' share of 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 reduced performance allocation of 10% on 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 performance allocation in a year in which the investment portfolio incurs a loss. For the year ended 31 December 2016, included in investment income is performance allocation of \$419,533 (2015: \$0). The performance allocation for the year ended 31 December 2015 was nil due to a net investment loss reported.

Additionally, pursuant to the Investment Agreement, a monthly management fee equal to 0.125% (1.5% on an annual basis) of the participants' investment account managed by DME Advisors is paid to DME Advisors. Included in the investment income for the year ended 31 December 2016 are management fees of \$1,118,841 (2015: \$1,197,090). The management fees have been fully paid as of 31 December 2016.

Pursuant to the Investment Agreement, the Company has agreed to indemnify DME Advisors for any expense, loss, liability, or damage arising out of any claim asserted or threatened in connection with DME Advisors serving as the Company's investment advisor. The Company will reimburse DME Advisors for reasonable costs and expenses of investigating and/or defending such claims provided such claims were not caused due to gross negligence, breach of contract or misrepresentation by DME Advisors. During the year ended 31 December 2016, there were no indemnification payments made by the Company.

The following amounts are included in the Company's financial statements in order to reflect the Company's share of assets, liabilities, income and expenses under the agreement.

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Assets	117,625,310	141,841,657
Liabilities	68,037,489	65,699,000
Income	13,975,710	22,237,877
Expenses	10,199,913	39,174,830

## **Greenlight Reinsurance Ireland, dac**

### **Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

#### **Green Brick Partners, Inc**

David Einhorn also serves as the Chairman of the Board of Directors of Green Brick Partners, Inc ("GRBK"), a publicly traded company. During the year ended 31 December 2014, the Company, along with certain affiliates of DME Advisors, provided debt financing to GRBK and acquired equity shares of GRBK. During the year ended 31 December 2016, the Company's investment income included \$0 (2015: \$10,000) of interest relating to this debt. During the third quarter of 2015, GRBK repaid the debt in full along with all accrued interest and prepayment fees, and the Company purchased additional equity shares of GRBK. As of 31 December 2016, \$2,152,835 (2015: \$1,709,824) of GRBK listed equities were included on the statement of financial position as "equity securities, trading, at fair value through profit or loss". The Company along with certain affiliates of DME Advisors, collectively own 49% of the issued and outstanding common shares of GRBK. Under applicable securities laws, DME Advisors may be limited at times in its ability to trade GRBK shares on behalf of the Company.

#### **16. OTHER RELATED PARTY TRANSACTIONS**

##### **Amounts due to related party**

At 31 December 2016, the Company had amounts due to its related company Greenlight Reinsurance Limited of \$925,171 (2015: \$883,531) in relation to letters of credit fees and other administration costs.

##### **Quota share retrocession agreement**

The Company has entered into a quota share retrocession agreement with Greenlight Reinsurance Limited whereby the Company cedes to Greenlight Reinsurance Limited a quota share portion of certain specified reinsurance contracts written by the Company. For the year ended 31 December 2016, the Company ceded \$18,596,784 (2015: \$17,588,264) of written premiums to Greenlight Reinsurance Limited.

##### **Aggregate stop loss retrocession agreement**

The Company has entered into a retrocession agreement with Greenlight Reinsurance Limited whereby Greenlight Reinsurance Limited provides an aggregate stop loss protection to the Company in return for premiums ceded by the Company to Greenlight Reinsurance Limited. For the year ended 31 December 2016, the Company ceded \$2,148,712 (2015: \$1,700,000) of written premiums to Greenlight Reinsurance Limited. During the year ended 31 December 2016, the aggregate stop loss threshold for coverage was not breached which resulted in no losses recovered by the Company from Greenlight Reinsurance Limited (2015: nil).

##### **Letters of Credit**

The Company's related company, Greenlight Reinsurance Limited, issues letters of credit on behalf of the Company under various facilities, for the benefit of the Company's insureds. The collateral pledged as security relating to these letters of credit is also provided by Greenlight Reinsurance Limited. In the event that the Company's insureds draw upon any letters of credit, the Company shall be obligated to reimburse Greenlight Reinsurance Limited the amount of the letters of credit drawn by the insured. As of 31 December 2016, \$29,493,669 (2015: \$37,312,081) of letters of credit were issued by Greenlight Reinsurance Limited on behalf of the Company and no letters of credits were drawn by the Company's insureds for the year ended 31 December 2016.

#### **17. COMMITMENTS**

##### **Operating Lease**

The Company has entered into a lease agreement for office space in Dublin, Ireland. Under the terms of this lease agreement, the Company is committed to minimum annual rent payments denominated in Euros approximating €147,110 per annum until May 2021 and adjusted to the prevailing market rates for each of two subsequent five-year terms. The Company has the option to terminate the lease agreement 2021. Included in the schedule below are the net minimum lease payment obligations for the next five years relating to this lease as of 31 December 2016.

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
Operating lease obligations	\$ 154,730	\$ 154,730	\$ 154,730	\$ 154,730	\$ 58,024	\$ 676,944

**Greenlight Reinsurance Ireland, dac**

**Notes to the financial statements for the years ended 31 December 2016 and 2015 - continued**

**18. CORPORATE GOVERNANCE CODE**

Effective 1 January 2015, the Company is subject to “The Corporate Governance Code for Credit Institutions and Insurance Undertakings” (the “Code”) but is not deemed to be a “major institution” under the terms of the Code.