

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2017

OR

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

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

**Greenlight Capital Re, Ltd.**

(Exact Name of Registrant as Specified in Its Charter)

**Cayman Islands**

**N/A**

(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification No.)

**65 Market Street, Suite 1207, Camana Bay**

**P.O. Box 31110**

**Grand Cayman, KY1-1205**

**Cayman Islands**

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: **345-943-4573**

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

Title of Class	Name of Exchange on Which Registered
<b>Class A ordinary shares, \$0.10 par value per share</b>	<b>The Nasdaq Stock Market LLC</b>

Securities registered pursuant to Section 12(g) of the Act: **None**

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

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

The aggregate market value of voting and non-voting Class A ordinary shares held by non-affiliates of the registrant as of June 30, 2017 was \$620,785,740 based on the closing price of the registrant's Class A ordinary shares reported on the Nasdaq Global Select Market on June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter. Solely for the purpose of this calculation and for no other purpose, the non-affiliates of the registrant are assumed to be all shareholders of the registrant other than (i) directors of the registrant, (ii) executive officers of the registrant who are identified as "named executives" pursuant to Item 11 of this Form 10-K, (iii) any shareholder that beneficially owns 10% or more of the registrant's common shares and (iv) any shareholder that has one or more of its affiliates on the registrant's board of directors. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

Class A Ordinary Shares, \$0.10 par value

31,102,551

Class B Ordinary Shares, \$0.10 par value

6,254,715

(Class)

Outstanding as of February 16, 2018

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the registrant's 2018 annual meeting of shareholders, to be filed subsequently with the Securities and Exchange Commission, or the SEC, pursuant to Regulation 14A, under the Securities Exchange Act of 1934, as amended, or the Exchange Act, relating to the registrant's annual general meeting of shareholders scheduled to be held on April 25, 2018 are incorporated by reference in Part III of this Annual Report on Form 10-K.



# GREENLIGHT CAPITAL RE, LTD.

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## PART I

### Special Note About Forward-Looking Statements

Certain statements in Management's Discussion and Analysis, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements generally are identified by the words "believe," "project," "predict," "expect," "anticipate," "estimate," "intend," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" (refer to Part I, Item 1A) and include but are not limited to:

- Our results of operations will likely fluctuate from period to period and may not be indicative of our long-term prospects;
- Competitors with greater resources may make it difficult for us to effectively market our products or offer our products at a profit;
- Rating agencies may downgrade or withdraw either of our ratings;
- If our losses and loss adjustment expenses greatly exceed our loss reserves, our financial condition may be significantly and negatively affected;
- We may face risks from future strategic transactions such as acquisitions, dispositions, mergers or joint ventures;
- The effect of emerging claim and coverage issues on our business is uncertain;
- The property and casualty reinsurance market may be affected by cyclical trends;
- We have limited control as to how our investment portfolio is allocated and its performance depends on the ability of DME Advisors to select and manage appropriate investments;
- Our investment portfolio may be concentrated in a few large positions which could result in large losses;
- Loss of key executives could adversely impact our ability to implement our business strategy; and
- Currency fluctuations could result in exchange rate losses and negatively impact our business.

We caution that the foregoing list of important factors is not intended to be and is not exhaustive. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise and all subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. If one or more risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statements in this Form 10-K reflect our current view with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth, strategy and liquidity. Readers are cautioned not to place undue reliance on the forward-looking statements which speak only to the dates on which they were made.

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

## Item 1. BUSINESS

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

<b>Reference</b>	<b>Entity’s legal name</b>
Greenlight Capital Re	Greenlight Capital Re, Ltd.
Greenlight Re	Greenlight Reinsurance, Ltd.
GRIL	Greenlight Reinsurance Ireland, Designated Activity Company
Verdant	Verdant Holding Company, Ltd.

### Company Overview

Greenlight Capital Re is a holding company that was incorporated in July 2004 under the laws of the Cayman Islands. In August 2004, we raised gross proceeds of \$212.2 million from private placements of Greenlight Capital Re’s Class A ordinary shares and Class B ordinary shares, or, collectively, the ordinary shares. On May 24, 2007, Greenlight Capital Re raised proceeds of \$208.3 million, net of underwriting fees, in an initial public offering of Class A ordinary shares, as well as an additional \$50.0 million from a private placement of Class B ordinary shares.

We are a Cayman Islands headquartered global property and casualty reinsurer with a reinsurance and investment strategy that we believe differentiates us from most of our competitors. We conduct our reinsurance operations through two licensed and regulated reinsurance entities: Greenlight Re, based in the Cayman Islands, and GRIL, based in Dublin, Ireland. Greenlight Re provides multi-line property and casualty reinsurance globally, while GRIL focuses mainly on the European market and primarily serves clients located in Europe. Our goal is to build long-term shareholder value by providing risk management products and services to the insurance, reinsurance and other risk marketplaces. We focus on delivering risk solutions to clients and brokers who value our expertise, analytics and customer service offerings.

We aim to complement our underwriting results with a non-traditional investment approach in order to achieve higher rates of return over the long term than reinsurance companies that employ more traditional investment strategies. We manage our investment portfolio according to a value-oriented philosophy, in which we take long positions in perceived undervalued securities and short positions in perceived overvalued securities. In addition, from time to time, we make long-term strategic investments in insurance companies and general agents to complement our strategy and strengthen our client relationships. To facilitate such strategic investments, we formed Verdant, which, among other activities, has made and may make strategic investments in a select group of property and casualty insurers and general agents in the United States.

Because we endeavor to adapt our portfolio over time in response to market conditions and our risk appetite, period-to-period comparisons of our underwriting results may not be meaningful. In addition, our historical investment results may not necessarily be indicative of future performance. Due to the nature of our reinsurance and investment strategies, our operating results will likely fluctuate from period to period.

### Description of Business

Greenlight Re is licensed and regulated by the Cayman Islands Monetary Authority (“CIMA”) to write property and casualty reinsurance business as well as long term business (e.g., life insurance, long term disability, long term care, etc.); however, to date, we have not written any long term business. GRIL is licensed and regulated by the Central Bank of Ireland (“CBI”) to write property and casualty reinsurance business. Currently, we manage our business on the basis of one operating segment: property and casualty reinsurance. Within that segment, we employ a two-pillar strategy:

## 1. Underwriting traditional property and casualty reinsurance

We offer excess of loss and quota share products across a range of classes in the property and casualty market. Our underwriting approach varies by class and type of opportunity:

- where we have domain-specific expertise and a high level of market access, we may seek to act as the lead underwriter to achieve greater influence in negotiating pricing, terms and conditions;
- where our expertise is sufficient to thoroughly evaluate the risk, we will generally seek to participate on syndicated placements that have been negotiated and priced by another party that we judge to have market-leading expertise in the class, or as a quota share retrocessionaire of a market-leading reinsurer.

## 2. Risk innovation and strategic partnerships

We seek to develop a range of risk products, via strategic partnerships and other methods, with the objective of providing fee income, access to a valuable stream of underwriting business, and/or the potential for significant investment upside.

Our initiatives in this space generally aim to meet at least one of several criteria:

- the value we add to a partnership primarily comes from application of our risk expertise, not solely investment or reinsurance support;
- the partnership adds deep expertise to our company, in domain specific risk factors, technology, product innovation, and/or other areas;
- the partnership provides access to a pool of capital, to products and/or to distribution;
- overall, the partnership creates a combined effort that has greater durable strategic and/or competitive position in one or more markets, and increases our opportunity for revenue growth and margin expansion.

Our investment strategy, like our reinsurance strategy, is designed to maximize returns over the long term while minimizing the risk of capital loss. Unlike the investment strategies of many of our traditional competitors, which invest primarily in fixed-income securities either directly or through fixed-fee arrangements with one or more investment managers, our investment strategy is to invest in long and short positions primarily in publicly-traded equity and corporate debt instruments exclusively through a joint venture with DME Advisors, LLC (“DME”). Our investment advisor, DME Advisors, LP (“DME Advisors”), is compensated with a fixed annual fee based on assets under management and DME is compensated on the positive performance of our portfolio, subject to a loss carry forward. DME Advisors, which makes investments on our behalf, is a value-oriented investment advisor that analyzes companies’ available financial data, business strategies and prospects in an effort to identify undervalued and overvalued securities. DME Advisors and DME are both controlled by David Einhorn, the Chairman of our Board of Directors and the President of Greenlight Capital, Inc. DME Advisors has the contractual right to manage substantially all of our investable assets until December 31, 2019, and is required to follow our investment guidelines and to act in a manner that is fair and equitable in allocating investment opportunities to us. However, DME Advisors is not otherwise restricted with respect to the nature or timing of making investments for our account.

We measure our success by long-term growth in book value per share, which we believe is the most comprehensive gauge of the performance of our business. Accordingly, our incentive compensation plans are designed to align employee and shareholder interests. Compensation under our cash bonus plan is largely dependent on the ultimate underwriting returns of our business measured over a multi-year period, rather than premium targets or estimated underwriting profitability for the year in which we initially underwrote the business.

We seek to grow and diversify our portfolio. Our allocation of risk will vary based on our perception of the opportunities available in each line of business at each point in time. As our focus on certain lines fluctuates based upon market conditions, we may only offer or underwrite a limited number of lines in any given period. We seek to:

- target markets and lines of business where we believe an appropriate risk/reward profile exists;
- attract and retain clients with expertise in their respective lines of business;
- employ strict underwriting discipline; and
- select reinsurance opportunities with anticipated favorable returns on capital over the life of the contract.

The following table sets forth our gross premiums written by line of business:

	Year ended December 31					
	2017		2016		2015	
	(\$ in thousands)					
<b>Property</b>						
Commercial	\$ 18,388	2.7%	\$ 16,180	3.0%	\$ 15,633	3.1%
Motor	73,481	10.6	39,551	7.4	34,529	6.9
Personal	50,045	7.2	47,893	8.9	57,495	11.5
Total Property	141,914	20.5	103,624	19.3	107,657	21.5
<b>Casualty</b>						
General Liability	33,519	4.8	34,450	6.4	27,620	5.5
Motor	287,749	41.5	227,030	42.4	203,624	40.6
Professional	44,910	6.5	37,847	7.1	65,607	13.1
Workers' Compensation	47,761	6.9	25,456	4.7	12,646	2.5
Total Casualty	413,939	59.7	324,783	60.6	309,497	61.7
<b>Specialty</b>						
Accident & Health	69,803	10.1	52,114	9.7	56,784	11.3
Financial	48,448	7.0	34,658	6.5	6,699	1.3
Marine	6,574	1.0	9,127	1.7	9,283	1.8
Other	11,973	1.7	11,766	2.2	12,204	2.4
Total Specialty	136,798	19.8	107,665	20.1	84,970	16.8
	\$ 692,651	100.0%	\$ 536,072	100.0%	\$ 502,124	100.0%

The following table sets forth our gross premiums written by the geographic area of the risk insured:

	Year ended December 31					
	2017		2016		2015	
	(\$ in thousands)					
U.S. and Caribbean	\$ 606,510	87.6%	\$ 432,144	80.6%	\$ 383,236	76.3%
Worldwide <sup>(1)</sup>	86,714	12.5	97,810	18.2	104,336	20.8
Europe <sup>(2)</sup>	(612)	(0.1)	6,250	1.2	14,085	2.8
Asia <sup>(2)</sup>	39	—	(132)	—	467	0.1
	\$ 692,651	100.0%	\$ 536,072	100.0%	\$ 502,124	100.0%

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

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

Additional information about our business is set forth in “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 15 to our consolidated financial statements included herein.



## Marketing and Distribution

Business transacted using intermediaries

A majority of our business is sourced through reinsurance brokers. Brokerage distribution channels provide us with access to an efficient, variable cost and global distribution system without the significant time and expense that would be incurred in creating a wholly-owned distribution network. In addition to distribution, many intermediaries also provide valuable services including risk analytics, processing and clearing.

We aim to build and strengthen long-term relationships with global reinsurance brokers. Our management team has significant relationships with most of the primary and specialty broker intermediaries in the reinsurance marketplace. We believe that by maintaining close relationships with brokers we will be able to continue to obtain access to a broad range of reinsurance clients and opportunities.

We seek to strengthen our broker relationships and become the first choice to brokers and clients by providing, where applicable:

- customized solutions that address the specific business needs of our clients;
- rapid responses to risk submissions;
- demonstrated expertise in the underlying reinsured exposures and in the operation of the contracts;
- timely payment of claims;
- financial security; and
- clear indication of risks we will and will not underwrite.

We focus on the quality and financial strength of any brokerage firm with which we do business. Brokers do not have the authority to bind us to any reinsurance contract. Reinsurance brokers receive a brokerage commission that is usually a percentage of gross premiums written.

The following table sets forth the premiums sourced from brokers who each accounted for more than 10% of our gross written premiums:

	Year ended December 31					
	2017		2016		2015	
	(\$ in thousands)					
Largest broker	\$ 366,390	52.9%	\$ 274,816	51.3%	\$ 278,003	55.4%
2nd largest broker	125,320	18.1	104,684	19.5	110,246	22.0
	<u>\$ 491,710</u>	<u>71.0%</u>	<u>\$ 379,500</u>	<u>70.8%</u>	<u>\$ 388,249</u>	<u>77.4%</u>

We meet frequently in the Cayman Islands, Ireland and elsewhere with brokers and senior representatives of clients and prospective clients. All contract submissions are received, reviewed and approved in our offices in the Cayman Islands or Ireland. Due to our dependence on brokers, the inability to obtain business from them could adversely affect our business strategy. See “Item 1A. Risk Factors — Risks Related to Our Business — *The inability to obtain business provided from brokers could adversely affect our business strategy and results of operations.*” In addition, we may assume a degree of the credit risk of our reinsurance brokers. See “Item 1A. Risk Factors — Risks Related to Our Business — *We may be subject to the credit risk of our brokers, cedents and agents.*”

## Underwriting and Risk Management

We have established an underwriting platform comprised of experienced underwriters and actuaries. We have underwriting operations in two locations, Cayman Islands and Dublin, Ireland that respectively provide some proximity to key

markets in the U.S. and Europe. Our experienced team allows us to deploy our capital in a variety of lines of business and to capitalize on opportunities that we believe offer favorable returns on equity over the long term. Our underwriters and quantitative professionals have expertise in a number of lines of business, and we also look to outside consultants on a fee-for-service basis to help us with niche areas of expertise when we deem it appropriate. We generally apply the following underwriting and risk management principles:

### ***Economics of Results***

Our primary goal is to build a reinsurance portfolio that maximizes economic results within certain risk and volatility constraints. In pricing our products, we assume investment returns that approximate the risk-free rate, which we review and adjust, if necessary, on an annual basis.

### ***Analysis Approach***

Our analysis approach for underwriting business begins at the class of business level. We endeavor to understand the risks and dynamics of each market in which we underwrite business. These analyses include identification and assessment of structural drivers of risk and emerging trends in loss, as well as attempts to understand the market participants and results, capacity conditions for supply and demand, and other factors. In building our views on individual classes, we organize our underwriting and quantitative professionals into teams that generally specialize by line. Combined with cross-line management and insights, we believe this approach allows the building and deployment of deeper expertise and a more thorough “point of view” on the risk dynamics of the line and on external risk factors that will affect each transaction.

Our teams carefully underwrite each individual transaction within the overall line of business view. Transactions are assigned to a deal team comprised of underwriting and quantitative professionals to evaluate underwriting, pricing and structuring. Prior to committing capital to any transaction, the deal team presents the underwriting and quantitative analysis to the Executive Underwriting Group, consisting primarily of the Chief Executive Officer, Chief Underwriting Officer and Chief Operating Officer. The underwriting meeting discusses key components of the proposed transaction, including assumptions and threats, market and individual deal risk factors, market capacity dynamics, transaction structure and pricing, maximum downside, and other factors.

We spend a significant amount of time with our clients and brokers to understand the risks and appropriately structure the contracts. Where necessary, we conduct or contract for on-site audits or reviews of the clients’ underwriting files, systems and operations. We usually obtain significant amounts of data from our clients to conduct a thorough actuarial modeling analysis. As part of our pricing and underwriting process, we assess, among other factors:

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

We have developed and use proprietary quantitative models, and also use several commercially available tools to price our business. Our models consider conventional underwriting and risk metrics, and incorporate various class specific and/or

market specific aspects from our line of business analyses. In using quantitative models, we endeavor to carefully consider the quality and predictive power of the quantitative work, including explicit assessment of the data quality, and we place greater weight on scenarios that result in greater losses. We price each transaction based on our view of the merits and structure of the transaction.

### ***Underwriting Authorities***

The Underwriting Committee of our Board of Directors, which we refer to as the Underwriting Committee, sets parameters for aggregate property catastrophic caps and limits for maximum loss potential under any individual contract. The Underwriting Committee must approve any exceptions to the established limits. The maximum underwriting authorities, as set by our Underwriting Committee, may be amended from time to time, including as and when our capital base changes. In general, our underwriting authorities are aimed at supporting our efforts to balance the size of our risk position with the level and depth of our expertise in a given area and the margins available, while at attempting to limit the downside risk.

### ***Retrocessional Coverage***

We purchase retrocessional coverage for one or more of the following reasons: to manage our overall exposure, to reduce our net liability on individual risks, to obtain additional underwriting capacity and/or to balance our underwriting portfolio.

The amount of retrocessional coverage that we purchase varies based on numerous factors, some of which include the inherent volatility and risk accumulation of the portfolio of business we write and the level of our capital base. Our portfolio, and by extension our gross risk position will change in size from year to year depending on the market opportunity, so it is not possible to predict the level of retrocessional coverage that we will purchase in any given year.

We generally intend to purchase uncollateralized retrocessional coverage only from reinsurers with a minimum financial strength ratings of “A- (Excellent)” from A.M. Best Company, Inc. (“A.M. Best”) or an equivalent rating from a recognized rating service. For lower rated or non-rated reinsurers, we endeavor to obtain and monitor collateral in the form of cash, funds withheld, letters of credit, regulatory trusts or other collateral in the form of guarantees. As of December 31, 2017, the aggregate amount due from reinsurers from retrocessional coverages represents 6.3% (2016: 0.9%) of our gross loss reserves. For further details please see Note 8 to the consolidated financial statements. We regularly evaluate the financial condition of our reinsurers to assess their ability to honor their obligations. At December 31, 2017 and 2016, no provision for uncollectible losses recoverable was considered necessary.

### **Claims Management**

Our claims management process begins upon receipt of claims notifications from our clients or third-party administrators. Reserving and settlement authority are reviewed in accordance with the requirements of the individual contract and, as required, discussed with the underwriter. Our in-house claims officer is responsible for overseeing the review of claims and providing approval for complex or large claim settlements. Claims in excess of the claims officer’s authority are referred to the general counsel, together with the claims officer’s recommendations, for secondary approval. Claim payments above a certain threshold, must be approved by our Chief Executive Officer. We believe that this process ensures that we pay claims consistently within the terms and conditions of each contract.

Where necessary, we conduct or contract for on-site claims audits at cedants and third-party administrators, particularly for large accounts and for those whose performance differs from our expectations. Through these audits, we evaluate and monitor the third-party administrators’ and ceding companies’ claims-handling practices, including the organization of their claims departments, their fact-finding and investigation techniques, their loss notifications, the adequacy of their reserves, their negotiation and settlement practices and their adherence to claims-handling guidelines.

We recognize that fair interpretation of our reinsurance agreements with our clients and timely payment of covered claims are valuable services to our clients.

## Reserves

Our reserving philosophy is to set reserves that represent our best estimate of the ultimate future liabilities arising from the risks we have underwritten. Our actuaries perform quarterly reviews of our portfolio and provide reserving estimates in line with our stated reserving philosophy. In doing so, our actuaries split our portfolio of business into reserving analysis segments based primarily on homogeneity and credibility considerations. Currently, this involves performing analysis at the individual transaction level and segmenting the underlying risks within each transaction into appropriate analysis segments.

We engage independent external actuaries who review and provide an opinion on these estimates at least once a year. Due to the use of different assumptions, accounting treatment and loss experience, the amount we establish as reserves with respect to individual risks, transactions or classes of business may be greater or less than those established by clients or ceding companies. Reserves may include unearned premiums, premium deposits, profit sharing earned but not yet paid, claims reported but not yet paid, claims incurred but not reported and claims in the process of settlement.

Reserves do not represent an exact quantification of the ultimate future liability that will emerge. Rather, reserves represent our best estimate of the expected cost of the ultimate settlement and administration of the claim. Although the methods for establishing reserves are well-tested, many of the major assumptions about anticipated loss emergence patterns are subject to unanticipated fluctuation. We base our estimates on our assessment of facts and circumstances known at the time of the estimate, as well as estimates of future trends in claim severity and frequency, judicial theories of liability and other factors, including the actions of third parties, which are beyond our control. (See Note 7 of the accompanying consolidated financial statements for reconciliation of claims reserves, loss development tables by accident year and for explanation of significant prior period loss developments.) See “Item 1A. Risk Factors — Risks Relating to Our Business — *If our losses and loss adjustment expenses greatly exceed our loss reserves, our financial condition may be significantly and negatively affected.*”

## Collateral Arrangements and Letter of Credit Facilities

We are licensed and admitted as an insurer only in the Cayman Islands and the European Economic Area. Many jurisdictions, such as the United States, do not permit clients to take credit for reinsurance on their statutory financial statements if such reinsurance is obtained from unlicensed or non-admitted insurers without appropriate collateral. As a result, we anticipate that all of our U.S. clients and a portion of our non-U.S. clients will require us to provide collateral for the contracts we bind with them. We expect this collateral to take the form of funds withheld, trust arrangements or letters of credit. As of December 31, 2017, we had letter of credit facilities with an aggregate capacity of \$600.0 million (2016: \$600.0 million). On September 26, 2017, we provided a notice of cancellation to JP Morgan Chase Bank N.A. to terminate the letter of credit facility of \$100.0 million. The termination was effective on January 27, 2018. As of December 31, 2017, we had issued letters of credit totaling \$188.5 million (2016: \$255.4 million) to clients. Additionally, as of December 31, 2017, we had pledged \$377.9 million (2016: \$86.4 million) as collateral through trust arrangements. The failure to maintain, replace or increase our letter of credit facilities and trust arrangements on commercially acceptable terms may significantly and negatively affect our ability to implement our business strategy. See “Item 1A. Risk Factors — Risks Relating to Our Business — *Our failure to maintain sufficient collateral arrangements or to increase our collateral capacity on commercially acceptable terms as we grow could significantly and negatively affect our ability to implement our business strategy.*”

## Competition

The reinsurance industry is highly competitive. We compete with major reinsurers, most of which are well established, have significant operating histories and strong financial strength ratings, and have developed long-standing client relationships.

Our competitors vary according to the individual market and situation, but generally include Everest Re, General Re Corporation, Hannover Re Group, Munich Reinsurance Company, PartnerRe Ltd., Swiss Reinsurance Company, Third Point Reinsurance Ltd. and Transatlantic Reinsurance Company, as well as smaller companies, other niche reinsurers and Lloyd's syndicates. Although we seek to provide coverage where capacity and alternatives are limited, we directly compete with these and other larger companies due to the breadth of their coverage across the property and casualty market in substantially all lines of business. See "Item 1A – Risk Factors – Risks Relating to Our Business – *Competitors with greater resources may make it difficult for us to effectively market our products or offer our products at a profit.*"

## Ratings

Currently, our reinsurance subsidiaries, Greenlight Re and GRIL are both rated "A- (Excellent)" by A.M. Best. The "A- (Excellent)" rating from A.M. Best is the fourth highest of 13 ratings. We believe that a strong rating is an important factor in the marketing of reinsurance products to clients and brokers. These ratings reflect the rating agency's opinion of our reinsurance subsidiaries' financial strength, operating performance and ability to meet obligations. It is not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our Class A ordinary shares.

The failure to maintain a strong rating may significantly and negatively affect our ability to implement our business strategy. See "Item 1A. Risk Factors — Risks Relating to Our Business — *A downgrade or withdrawal of either of our A.M. Best ratings may significantly and negatively affect our ability to implement our business strategy successfully.*"

## Regulations

### *Cayman Islands Insurance Regulation*

The legislative framework for the carrying on of insurance and reinsurance business in and from within the Cayman Islands is comprised of The Insurance Law, 2010 (as amended) and underlying regulations thereto (the "Law") which was brought into force in the Cayman Islands effective as of November 1, 2012.

Greenlight Re holds a Class D insurer license issued in accordance with the terms of the Law and is subject to regulation by CIMA.

As the holder of a Class D insurer license, Greenlight Re is permitted to carry on reinsurance business from the Cayman Islands, but, except with the prior written approval of CIMA, may not carry on any insurance or reinsurance business where the underlying risk originates and resides in the Cayman Islands.

Greenlight Re is required to comply with the following principal requirements under the Law:

- to maintain capital and a margin of solvency in accordance with the capital and solvency requirements prescribed by the Law;
- to carry on its business in accordance with the terms of the license application submitted to CIMA and to seek the prior approval of CIMA for any proposed change thereto;
- to maintain adequate arrangements for the management of risks and a system of governance as approved by CIMA;
- to maintain a minimum of at least two directors and to seek the prior approval of CIMA in respect of the appointment of directors and officers and to provide CIMA with information in connection therewith and notification of any changes thereto;
- to have a place of business in the Cayman Islands and to maintain such resources, including staff and facilities, books and records as CIMA considers appropriate having regard for the nature and scale of the business of Greenlight Re;
- to submit to CIMA an annual return in the prescribed form together with:
  - financial statements prepared in accordance with any internationally recognized accounting standards, audited by an independent auditor approved by CIMA;
  - an actuarial valuation of Greenlight Re's assets and liabilities, certified by an actuary approved by CIMA;
  - certification of solvency prepared by a person approved by CIMA in accordance with the prescribed requirements;
  - confirmation that the information contained in Greenlight Re's license application, as modified by any subsequent changes, remains correct;
  - such other information as may be prescribed by CIMA; and
- to pay an annual license fee.

It is the duty of CIMA:

- to maintain a general review of insurance practices in the Cayman Islands;
- to examine the affairs or business of any licensee or other person carrying on, or who has carried on, insurance business in order to ensure that the Law has been complied with and that the licensee is in a sound financial position and is carrying on its business in a fit and proper manner;
- to examine and report on the annual returns delivered to CIMA in terms of the Law; and
- to examine and make recommendations with respect to, among other things, proposals for the revocation of licenses and cases of suspected insolvency of licensed entities.

Greenlight Re is also required to comply with the Rule on Corporate Governance for Insurers and the Rule on Risk Management for Insurers. Respectively, these rules require regulated insurers to establish and maintain (a) a corporate governance framework which provides for the sound and prudent management and oversight of the insurer's business, including outsourcing and internal controls, and which adequately recognizes and protects the interests of its policyholders, and (b) a risk management framework that is capable of promptly identifying, measuring, assessing, reporting, monitoring and controlling all sources of risks that could have a material impact on its operations in a timely manner.

Where CIMA believes that a licensee is committing, or is about to commit or pursue, an act that is an unsafe or unsound business practice, CIMA may direct the licensee to cease or refrain from committing the act or pursuing the offending course of conduct. Failure to comply with such a CIMA direction may be punishable on summary conviction by a fine of up to 100,000 Cayman Islands dollars (which is approximately US\$120,000) or to imprisonment for a term of five years or to both, and on conviction on indictment to a fine of 500,000 Cayman Islands dollars (which is approximately US\$600,000) or to imprisonment for a term of ten years or to both and to an additional 10,000 Cayman Islands dollars (which is approximately US\$12,000) for every day after conviction that the breach continues.

In addition, CIMA may impose fines and penalties on a licensee that is in breach of the Law, ranging from a fixed fine of 5,000 Cayman Islands dollars (which is approximately US\$6,000) or a discretionary fine depending on the severity of the breach. Legislation amending the Monetary Authority Law gives CIMA significant new powers to impose larger administrative fines. It is anticipated that the new administrative sanctions regime will be brought into force shortly, along with guidance as to how CIMA will interpret and apply the legislation and associated regulations.

Whenever CIMA believes that a licensee is or may become unable to meet its obligations as they fall due, is carrying on business in a manner likely to be detrimental to the public interest or to the interest of its creditors or policyholders, has contravened the terms of the Law or has otherwise behaved in such a manner so as to cause CIMA to call into question the licensee's fitness, CIMA may take one of a number of steps, including requiring the licensee to take steps to rectify the matter, suspending the license of the licensee, revoking the license, imposing conditions upon the license and amending or revoking any such condition, requiring the substitution of any director, manager or officer of the licensee, at the expense of the licensee, appointing a person to advise the licensee on the proper conduct of its affairs and to report to CIMA thereon, at the expense of the licensee, appointing a person to assume control of the licensee's affairs or otherwise requiring such action to be taken by the licensee as CIMA considers necessary. To date, we have not been subject to any such actions from CIMA.

### ***Other Regulations in the Cayman Islands***

As Cayman Islands exempted companies, Greenlight Capital Re and Greenlight Re may not carry on business or trade locally in the Cayman Islands except in furtherance of their business outside the Cayman Islands, and are prohibited from soliciting the public of the Cayman Islands to subscribe for any of their securities or debt. We are further required to file a return with the Registrar of Companies in January of each year and to pay an annual registration fee at that time.

The Cayman Islands has no exchange controls restricting dealings in currencies or securities.

### ***Ireland Insurance Regulations***

Our Irish subsidiary, GRIL, is authorized as a non-life reinsurance undertaking by the CBI in accordance with the European Union (Insurance and Reinsurance) Regulations 2015 (the "Irish Regulations"). The Irish Regulations give effect in Ireland to EU Directive 2009/138/EC (known as "Solvency II"), which introduced a new European regulatory regime for insurers and reinsurers with effect from January 1, 2016. Solvency II is supplemented by the European Commission Delegated Regulation (EU) 2015/35, other European Commission "delegated acts" and binding technical standards, and guidelines issued by the European Insurance and Occupational Pensions Authority ("Delegated Acts and Guidelines"). GRIL is required to comply at all times with the Irish Regulations, the Irish Insurance Acts 1909 to 2015, regulations relating to insurance business or reinsurance business promulgated under the European Communities Act 1972, the Irish Central Bank Acts 1942 to 2015 as amended, regulations promulgated thereunder and directions, guidelines and codes of conduct issued by CBI (collectively the "Irish Insurance Acts and Regulations"). In addition, GRIL is required to comply with the Delegated Acts and Guidelines and must meet risk-based solvency requirements imposed under Solvency II on insurers and reinsurers across all member states, including Ireland. Solvency II and the Delegated Acts and Guidelines set out classification and eligibility requirements, including the characteristics which capital, including any capital contribution, must display to qualify as regulatory capital.

### **Overview of Investments**

Our investment portfolio is managed by DME Advisors, a value-oriented investment advisor that analyzes companies' available financial data, business strategies and prospects in an effort to identify undervalued and overvalued securities. DME Advisors is controlled by David Einhorn, the Chairman of our Board of Directors and the President of Greenlight Capital, Inc. Effective January 1, 2017, we entered into a third amended and restated agreement (the "venture agreement"), wherein the Company, Greenlight Re, GRIL, and DME have agreed to create a joint venture for the purposes of managing certain jointly held assets. The venture agreement, which replaced a 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, we 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.

Pursuant to the venture agreement and the advisory agreement, DME Advisors has the exclusive right to manage substantially all of our investable assets, subject to the investment guidelines adopted by the respective Boards of Directors of

Greenlight Re and GRIL, for so long as the venture agreement is in effect. DME Advisors receives a monthly management fee based on an annual rate of 1.5% of the capital account balance of each participant. In addition, DME receives a performance allocation based on the positive performance change in such participant's capital account equal to 20% of net profits calculated per annum, subject to a loss carry forward provision.

The loss carry forward provision allows DME to earn a reduced performance allocation of 10% on profits in any year subsequent to the year in which a participant's capital account (other than DME) incurs a loss, until all the losses are recouped and an additional amount equal to 150% of the loss is earned. DME is not entitled to a performance allocation in a year in which such participant's capital account incurs a loss.

DME Advisors is required to follow our investment guidelines and act in a manner that it considers fair and equitable in allocating investment opportunities to us, but the advisory agreement does not otherwise impose any specific obligations or requirements concerning the allocation of time, effort or investment opportunities to us or any restrictions on the nature or timing of investments for our account, or other accounts that DME Advisors or its affiliates may manage. In addition, DME Advisors can outsource to sub-advisors without our consent or approval. In the event that DME Advisors and any of its affiliates attempt to simultaneously invest in the same opportunity, the opportunity may be allocated pro-rata as reasonably determined by DME Advisors and its affiliates. Affiliates of DME Advisors presently serve as general partner or investment advisor of Greenlight Capital, L.P., Greenlight Capital Qualified, L.P., Greenlight Capital Offshore, Ltd., Greenlight Capital Offshore Qualified, Ltd., Greenlight Capital Offshore Partners, Greenlight Capital (Gold), L.P., Greenlight Capital Offshore (Gold), Ltd., Greenlight Capital Offshore Master (Gold), Ltd., Greenlight Masters, L.P., Greenlight Masters Qualified, L.P., Greenlight Masters Offshore, Ltd., Greenlight Masters Offshore I, Ltd., Greenlight Masters Offshore Partners and Greenlight Masters Partners (collectively, the "Greenlight Funds").

We have agreed to use commercially reasonable efforts to cause all of our current and future subsidiaries to enter into substantially similar venture agreements, provided that any such agreement shall be terminable on the same date that the venture agreement is terminable.

We have agreed to release DME and DME Advisors and their affiliates from, and to indemnify and hold them harmless against, any liability arising out of the venture agreement and the advisory agreement, subject to certain exceptions. Furthermore, DME and DME Advisors and their affiliates have agreed to indemnify us against any liability incurred in connection with certain actions.

Greenlight Re or GRIL may also withdraw as a participant under the venture agreement prior to the expiration of its term at any time only "for cause," which the venture agreement defines as:

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

In addition, GRIL may withdraw as a participant under the venture agreement prior to the expiration of its term due to unsatisfactory long term performance of DME Advisors, as determined solely by the Board of Directors of GRIL on each anniversary date of the venture agreement.



## ***Investment Strategy***

DME Advisors implements a value-oriented investment strategy by taking long positions in perceived undervalued securities and short positions in perceived overvalued securities. DME Advisors aims to achieve high absolute rates of return while minimizing the risk of capital loss. DME Advisors attempts to determine the risk/return characteristics of potential investments by analyzing factors such as the risk that expected cash flows will not be obtained, the volatility of the cash flows, the leverage of the underlying business and the security's liquidity, among others.

Our Board of Directors conducts reviews of our investment portfolio activities and oversees our investment guidelines to meet our investment objectives. We believe our investment approach, while less predictable than traditional fixed-income portfolios, complements our reinsurance business and will achieve higher rates of return over the long term than reinsurance companies that invest predominantly in fixed-income securities. Our investment guidelines are designed to maintain adequate liquidity to fund our reinsurance operations and to protect against unexpected events.

DME Advisors, which is contractually obligated to adhere to our investment guidelines, makes investment decisions on our behalf, which may include buying publicly listed equity securities and corporate debt, selling securities short and investing in private placements, futures, currencies, commodities, credit default swaps, interest rate swaps, sovereign debt, derivatives and other instruments. As of December 31, 2017, DME Advisors was in compliance with our investment guidelines.

## ***Investment Guidelines***

The investment guidelines adopted by the respective Boards of Directors of Greenlight Re and GRIL, which may be amended or modified from time to time, take into account restrictions imposed on us by regulators, our liability mix, requirements to maintain an appropriate claims paying rating by ratings agencies and requirements of lenders.

As of the date hereof, the investment guidelines for Greenlight Re currently state:

- *Composition of Investments:* At least 80% of the assets in the investment portfolio will be held in debt or equity securities (including swaps) of publicly-traded companies (or their subsidiaries), governments of the Organization of Economic Co-operation and Development, (the "OECD") and high income countries, cash, cash equivalents and gold. No more than 10% of the assets in the investment portfolio will be held in private equity securities.
- *Concentration of Investments:* Other than cash, cash equivalents, United States government obligations and gold, no single investment in the investment portfolio will constitute more than 20% of the portfolio.
- *Liquidity:* Assets will be invested in such fashion that Greenlight Re has a reasonable expectation that it can meet any of its liabilities as they become due. Greenlight Re will review with the investment advisor the liquidity of the portfolio on a periodic basis.
- *Monitoring:* Greenlight Re will require the investment advisor to re-evaluate each position in the investment portfolio and to monitor changes in intrinsic value and trading value and provide monthly reports on the investment portfolio to Greenlight Re as Greenlight Re may reasonably determine.
- *Leverage:* The investment portfolio may not employ greater than 15% indebtedness for borrowed money, including net margin balances, for extended time periods. The investment advisor may employ, in the normal course of business, up to 30% indebtedness for periods of less than 30 days.

Currency hedging activities are excluded from leverage calculations. Where the investment advisor enters into a secondary investment with the primary purpose of reducing the risk of another existing investment, then the investment advisor may exclude the secondary investment from the calculation of leverage provided that the investment advisor receives approval from the Company's Chief Financial Officer. Such authority is limited such that no more than 10% of indebtedness may be excluded from leverage calculations for such secondary investments.

The investment guidelines for GRIL are identical to Greenlight Re's except for concentration of investments and leverage, which for GRIL are as follows:

- *Concentration of Investments:* Other than cash, cash equivalents and United States government obligations, (1) no single investment in the investment portfolio will constitute more than 10% of the portfolio, (2) the 10 largest investments shall not constitute greater than 50% of the total investment portfolio, and (3) the investment portfolio shall at all times be comprised of a minimum of 50 debt or equity securities of publicly traded companies (or their subsidiaries).
- *Credit default swaps:* The sale of credit default swaps is prohibited.
- *Leverage:* The investment portfolio may not employ greater than 5% indebtedness for borrowed money, including net margin balances, for extended time periods. The investment advisor may use, in the normal course of business, an aggregate of up to 20% net margin leverage for periods of less than 30 days.

## Investment Results

### Composition

The following table represents the fair value of the total long positions in our investment portfolio as reported in the consolidated financial statements:

	December 31			
	2017		2016	
	(\$ in thousands)			
Debt instruments	\$ 7,180	0.5%	\$ 22,473	2.0%
Equities – listed	1,203,672	86.4	828,486	74.0
Exchange traded funds	—	—	15,515	1.4
Commodities	121,502	8.7	137,296	12.3
Private and unlisted equity funds	30,630	2.2	18,767	1.7
	<u>1,362,984</u>	<u>97.8</u>	<u>1,022,537</u>	<u>91.4</u>
Funds and cash held with brokers and swap counterparties	39,383	2.8	22,541	2.0
Financial contracts, net	(9,329)	(0.6)	74,144	6.6
Total long investments	<u>\$ 1,393,038</u>	<u>100.0%</u>	<u>\$ 1,119,222</u>	<u>100.0%</u>

The following table represents the fair value of our total short positions as reported in the consolidated financial statements:

	December 31			
	2017		2016	
	(\$ in thousands)			
Equities – listed	\$ 812,652	89.0%	\$ 770,267	89.6%
Sovereign debt – Non U.S.	100,145	11.0	89,635	10.4
Total short investments	<u>\$ 912,797</u>	<u>100.0%</u>	<u>\$ 859,902</u>	<u>100.0%</u>

DME Advisors also reports the composition of our managed portfolio on a delta adjusted and notional exposure basis, which it believes is the appropriate manner in which to assess the exposure and profile of investments and is the way in which it manages the portfolio. This exposure analysis does not include cash (U.S. dollar and foreign currencies), gold and other commodities, credit default swaps, sovereign debt, foreign currency derivatives, interest rate options and other macro positions. In addition, under this methodology, the exposure for total return swaps is reported at full notional amount. The notional amount of a derivative contract is the underlying value upon which payment obligations are computed. For an equity total return swap, for example, the notional amount is the number of shares underlying the swap multiplied by the market price of those shares. Options are reported at their delta adjusted basis. The delta of an option is the sensitivity of the option price to the

underlying stock (or commodity) price. The delta adjusted basis is the number of shares underlying the option multiplied by the delta and the underlying stock (or commodity) price.

The following table represents the composition of our investment portfolio based on the percentage of assets in our investment account managed by DME Advisors:

	<b>December 31</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Long %</b>	<b>Short %</b>	<b>Long %</b>	<b>Short %</b>
Debt instruments	0.1%	— %	1.9%	— %
Equities & related derivatives	98.5	(67.2)	96.3	(72.9)
Private and unlisted equity securities	2.1	—	1.3	—
<b>Total</b>	<b>100.7%</b>	<b>(67.2)%</b>	<b>99.5%</b>	<b>(72.9)%</b>

As of December 31, 2017, our exposure to gold on a delta adjusted basis was 9.8% (2016: 11.9%).

The following table represents the composition of our investment portfolio, by industry sector, based on the percentage of assets in our investment account managed by DME Advisors as of December 31, 2017:

<b>Sector</b>	<b>Long %</b>	<b>Short %</b>	<b>Net %</b>
Consumer Discretionary	26.8%	(16.0)%	10.8%
Consumer Staples	0.9	(3.3)	(2.4)
Energy	10.0	(6.0)	4.0
Financial	21.4	(3.0)	18.4
Healthcare	17.9	(11.8)	6.1
Industrials	9.2	(16.8)	(7.6)
Materials	3.7	(1.3)	2.4
Real Estate	0.1	—	0.1
Technology	10.4	(9.0)	1.4
Utilities	0.3	—	0.3
<b>Total</b>	<b>100.7%</b>	<b>(67.2)%</b>	<b>33.5%</b>

The following table represents the composition of our investment portfolio, by the market capitalization of the underlying security, based on the percentage of assets in our investment account managed by DME Advisors as of December 31, 2017:

<b>Capitalization</b>	<b>Long %</b>	<b>Short %</b>	<b>Net %</b>
Mega Cap Equity (≥\$25 billion)	33.4%	(30.8)%	2.6%
Large Cap Equity (≥\$5 billion and <\$25 billion)	41.2	(29.3)	11.9
Mid Cap Equity (≥\$1 billion and <\$5 billion)	18.7	(7.0)	11.7
Small Cap Equity (<\$1 billion)	5.2	(0.1)	5.1
Debt Instruments	0.1	—	0.1
Other Investments	2.1	—	2.1
<b>Total</b>	<b>100.7%</b>	<b>(67.2)%</b>	<b>33.5%</b>

## Investment Returns

A summary of our consolidated net investment income is as follows:

	Year ended December 31		
	2017	2016	2015
	(\$ in thousands)		
Realized gains (losses)	\$ 87,618	\$ (113,836)	\$ 22,227
Change in unrealized gains and losses	(41,444)	209,993	(265,401)
Investment related foreign exchange gains (losses)	(7,653)	2,988	(3,725)
Interest and dividend income, net of withholding taxes	25,510	23,915	15,313
Interest, dividend and other expenses	(23,937)	(22,334)	(31,092)
Investment advisor compensation	(19,863)	(24,543)	(19,246)
Net investment income (loss)	<u>\$ 20,231</u>	<u>\$ 76,183</u>	<u>\$ (281,924)</u>

Our investment return is based on the total assets in our investment account, which includes the majority of our equity capital and collected premiums. Investment returns, net of all fees and expenses, by quarter and for the last five years are as follows: <sup>(1)</sup>

Quarter	2017	2016	2015	2014	2013
1st	0.9%	2.5%	(1.8)%	(0.7)%	5.8%
2nd	(3.4)	(3.4)	(1.5)	8.1	2.0
3rd	5.5	3.1	(14.2)	(3.7)	4.0
4th	(1.3)	5.0	(4.0)	5.3	6.6
Full Year	<u>1.5%</u>	<u>7.2%</u>	<u>(20.2)%</u>	<u>8.7 %</u>	<u>19.6%</u>

<sup>(1)</sup> Investment returns are calculated monthly and compounded to calculate the quarterly and annual returns. Actual investment income may vary depending on cash flows into and out of the investment account. Past performance is not necessarily indicative of future results.

DME Advisors and its affiliates manage and expect to manage other client accounts besides ours, some of which have, or may have, objectives similar to ours. Because of the similarity or potential similarity of our investment portfolio to these other client accounts, and because, as a matter of ordinary course, DME Advisors and its affiliates provide their clients, including us, with results of their respective investment portfolios on the last day of each month, those other clients indirectly may have material non-public information regarding our investment portfolio. To address this issue, and to comply with Regulation FD, we present, prior to the start of trading on the first business day of each month, our largest disclosed long positions, a summary of our consolidated net investment returns, information on our long and short exposures and from time to time certain other material information relating to our investment portfolio, on our website, [www.greenlightre.ky](http://www.greenlightre.ky). DME Advisors may choose not to disclose certain positions to its clients in order to protect its investment strategy. Therefore, we present on our website the largest positions held by us that are disclosed by DME Advisors or its affiliates to their other clients.

## Internal Risk Management

Our Chief Operating Officer, in conjunction with our Chief Risk Officer, is responsible for the construction and review of our internal risk management function. A primary objective of our risk management function is to ensure that our underwriting efforts comply with explicitly stated underwriting appetites. These appetites, in turn, endeavor to balance our risk position size with our expertise and the available margins, while containing the cost of being wrong. In doing so, our risk management function designs, implements and oversees a range of operational and underwriting controls to attempt to support the appropriate functioning of the organization. We review our investment and underwriting portfolios on a periodic basis to

assess the impact to capital under stressed scenarios. With the assistance of DME Advisors, we periodically analyze both our assets and liabilities including the numerous components of risk in our portfolio, such as concentration risk and liquidity risk.

## **Information Technology**

Our information technology infrastructure is primarily housed in Grand Cayman, Cayman Islands. We have implemented backup procedures to ensure that data is backed up on a daily basis and can be restored in an appropriate time frame as needed.

We have a disaster recovery plan with respect to our information technology infrastructure that includes data and systems replication between our Cayman Islands office and Dublin office and other off-site locations. We believe we can access our core systems with insignificant outages and restore operation of our secondary systems in the event that our primary systems are unavailable due to a disaster or otherwise.

## **Employees**

As of December 31, 2017, we had 40 full-time employees, 32 who were based in Grand Cayman, Cayman Islands and 8 who were based in Dublin, Ireland. We believe that our employee relations are good. None of our employees are subject to collective bargaining agreements, and we are not aware of any current efforts to implement such agreements.

## **Additional Information**

Our website address is [www.greenlightre.ky](http://www.greenlightre.ky) and we make available, free of charge, on or through our website, links to our annual reports on Form 10-K and quarterly reports on Form 10-Q including XBRL instance documents, current reports on Form 8-K and other documents we file with or furnish to the SEC, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. In order to comply with Regulation FD, our investment returns are posted on our website on a monthly basis. Additionally, our Code of Business Conduct and Ethics is available on our website.

## **ITEM 1A. RISK FACTORS**

Any of these factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations.

### **Risks Relating to Our Business**

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

The performance of our reinsurance operations and our investment portfolio will likely fluctuate from period to period. Fluctuations will result from a variety of factors, including:

- our assessment of the quality of available reinsurance opportunities;
- loss experience on our reinsurance liabilities;
- reinsurance contract pricing;
- the volume and mix of reinsurance products we underwrite;
- the performance of our investment portfolio; and
- our ability to assess and integrate our risk management strategy properly.

In particular, we seek attractive opportunities to underwrite products and make investments to achieve favorable returns on equity over the long term. Our investment strategy to invest primarily in long and short positions in publicly-traded equity and debt instruments is subject to market volatility and is likely to be more volatile than traditional fixed-income portfolios that are comprised primarily of investment grade bonds. In addition, our differentiated strategy and focus on long-term growth in book value will result in fluctuations in total premiums written from period to period as we concentrate on underwriting

contracts that we believe will generate better long-term, rather than short-term, results. Additionally, if actual renewals do not meet expectations or if we choose not to write on a renewal basis because of pricing conditions, our premiums written in future years and our future operations could be materially adversely affected. Accordingly, our short-term results of operations may not be indicative of our long-term prospects.

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

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

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

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

Our competitors vary according to the individual market and situation, but generally include Everest Re, General Re Corporation, Hannover Re Group, Munich Reinsurance Company, PartnerRe Ltd., Swiss Reinsurance Company, Third Point Reinsurance Ltd. and Transatlantic Reinsurance Company as well as smaller companies, other niche reinsurers and Lloyd's syndicates. Although we seek to provide coverage where capacity and alternatives are limited, we directly compete with these and other larger companies due to the breadth of their coverage across the property and casualty market in substantially all lines of business.

Further, our ability to compete may be harmed if insurance industry participants continue to consolidate. Consolidated entities may try to use their enhanced market power to negotiate price reductions for our products and services. If competitive pressures reduce our prices, we would expect to write less business. If and when the insurance industry further consolidates, competition for customers may become more intense, and the importance of acquiring and properly servicing each customer may become greater. We could incur greater expenses relating to customer acquisition and retention, further reducing our operating margins. In addition, insurance companies that merge may be able to spread their risks across a consolidated, larger capital base so that they require less reinsurance. The number of companies offering retrocessional reinsurance may decline. Reinsurance intermediaries could also consolidate, potentially adversely impacting our ability to access business and distribute our products. We could also experience more robust competition from larger, better capitalized competitors. Any of the foregoing could significantly, and negatively, affect our business or our results of operations.

We cannot assure you that we will be able to compete successfully in the reinsurance market. Our failure to compete effectively could significantly and negatively affect our financial condition and results of operations and may increase the likelihood that we may be deemed to be a passive foreign investment company or an investment company. See "Item 1A. Risk Factors - Risks Relating to Taxation - *United States persons who own Class A ordinary shares may be subject to United States federal income taxation on our undistributed earnings and may recognize ordinary income upon disposition of Class A*

ordinary shares.” and “Item 1A. Risk Factors - Risks Relating to Insurance and Other Regulations — *We are subject to the risk of possibly becoming an investment company under U.S. federal securities law.*”

***A downgrade or withdrawal of either of our A.M. Best ratings may significantly and negatively affect our ability to implement our business strategy successfully.***

Companies, insurers and reinsurance brokers use ratings from independent rating agencies as an important means of assessing the financial strength and quality of reinsurers. These ratings reflect the rating agency’s opinion of our reinsurance subsidiaries’ financial strength, operating performance and ability to meet obligations. It is not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our Class A ordinary shares. Greenlight Re’s A.M. Best rating of “A- (Excellent)” is the fourth highest of 13 ratings that A.M. Best issues. A.M. Best periodically reviews our ratings and may revise one or more of our ratings downward or revoke them at its sole discretion based primarily on its analysis of our balance sheet strength, operating performance and business profile. Factors that may affect such an analysis include:

- if A.M. Best alters its capital adequacy assessment methodology in a manner that would adversely affect the rating of either reinsurer;
- if our actual losses significantly exceed our loss reserves;
- if unfavorable financial or market trends impact us;
- if we change our business practices from our organizational business plan in a manner that no longer supports our A.M. Best ratings;
- if we are unable to retain our senior management and other key personnel; or
- if our investment portfolio incurs significant losses.

If A.M. Best downgrades or withdraws either of our ratings, we could be severely limited or prevented from writing any new reinsurance contracts, which would significantly and negatively affect our ability to implement our business strategy.

Some of our reinsurance contracts provide the client with the right to terminate the agreement if our A.M. Best ratings are downgraded below certain rating thresholds. We expect that similar provisions will also be included in some contracts in the future. See - “*A downgrade in our ratings below specified levels or a significant decrease in our capital or surplus could enable certain clients to terminate reinsurance agreements or to require additional collateral.*”

***If our losses and loss adjustment expenses greatly exceed our loss reserves, our financial condition may be significantly and negatively affected.***

Our results of operations and financial condition depend upon our ability to accurately assess the potential losses and loss adjustment expenses associated with the risks we reinsure. Reserves are estimates at a given time of claims an insurer ultimately expects to pay, based upon facts and circumstances then known, predictions of future events, estimates of future trends in claim severity and other variable factors. The inherent uncertainties associated with estimating loss reserves are generally greater for reinsurance companies than for primary insurance companies primarily due to:

- the lapse of time from the occurrence of an event to the reporting of the claim and the ultimate resolution or settlement of the claim;
- the additional reporting delays that occur between the occurrence of an event or claim, its reporting to the primary insurance company and subsequent reporting to the reinsurance company by the primary insurance company;
- the settlement delays associated with the reporting delays;
- the diversity of development patterns among different types of reinsurance treaties; and
- the necessary reliance on the client for information regarding claims.

Our estimation of reserves may be less reliable than the reserve estimations of a reinsurer with a greater volume of business and an established loss history. Actual losses and loss adjustment expenses paid may deviate substantially from the

estimates of our loss reserves contained in our financial statements and could negatively affect our results of operations. If we determine our loss reserves to be inadequate, we will increase our loss reserves with a corresponding reduction in our net income and capital in the period in which we identify the deficiency, and such a reduction would also negatively affect our results of operations. If our losses and loss adjustment expenses greatly exceed our loss reserves, our financial condition may be significantly and negatively affected. For a summary of the effects of reserve re-estimation on prior year reserves and net income, see “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates, *Loss and Loss Adjustment Expense Reserves*.”

***We may face risks arising from future strategic transactions such as acquisitions, dispositions, mergers or joint ventures.***

We may pursue strategic transactions in the future, which could involve acquisitions or dispositions of businesses or assets. Any strategic transactions could have an adverse impact on our reputation, business, results of operation or financial condition. We face a number of risks arising from these types of transactions, including financial, accounting, tax and regulatory challenges; difficulties with integration, business retention, execution of strategy, unforeseen liabilities or market conditions; and other managerial or operating risks and challenges. Any future transactions could also subject us to risks such as failure to obtain appropriate value, post-closing claims being levied against us and disruption to our other businesses during the negotiation or execution process or thereafter. Accordingly, these risks and difficulties may prevent us from realizing the expected benefits from such strategic transactions. For example, businesses that we acquire or our strategic alliances or joint ventures may underperform relative to the price paid or resources committed by us; we may not achieve anticipated cost savings; or we may otherwise be adversely affected by transaction-related charges.

Through strategic transactions, we may also assume unknown or undisclosed business, operational, tax, regulatory and other liabilities, fail to properly assess known contingent liabilities, or assume businesses with internal control deficiencies. Risk-mitigating provisions that we put in place in the course of negotiating and executing these transactions, such as due diligence efforts and indemnification provisions, may not be sufficient to fully address these liabilities and contingencies.

***The effect of emerging claim and coverage issues on our business is uncertain.***

As industry practices and legal, judicial and regulatory conditions change, unexpected issues related to claims and coverage may emerge. Various provisions of our contracts, such as limitations or exclusions from coverage or choice of forum, may be difficult to enforce in the manner we intend, due to, among other things, disputes relating to coverage and choice of legal forum. These issues may adversely affect our business by either extending coverage beyond the period that we intended or by increasing the number or size of claims. In some instances, these changes may not manifest themselves until many years after we have issued insurance or reinsurance contracts that are affected by these changes. As a result, we may not be able to ascertain the full extent of our liabilities under our insurance or reinsurance contracts for many years following the issuance of our contracts. The effects of unforeseen development or substantial government intervention could adversely impact our ability to adhere to our goals.

***The property and casualty reinsurance market may be affected by cyclical trends.***

We write reinsurance in the property and casualty markets. The property and casualty reinsurance industry is cyclical. Primary insurers’ underwriting results, prevailing general economic and market conditions, liability retention decisions of companies and primary insurers and reinsurance premium rates influence the demand for property and casualty reinsurance. Prevailing prices and available surplus to support assumed business influence reinsurance supply. Supply may fluctuate in response to changes in return on capital realized in the reinsurance industry, the frequency and severity of losses and prevailing general economic and market conditions.

As a result, the reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to high levels of available underwriting capacity as well as periods when shortages of capacity have permitted favorable premium levels and changes in terms and conditions. The supply of available reinsurance capital has increased over the past several years and may increase further, either as a result of capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers.



Continued increases in the supply of reinsurance may have consequences for the reinsurance industry generally and for us, including fewer contracts written, lower premium rates, increased expenses for customer acquisition and retention, less favorable policy terms and conditions and/or lower premium volume.

Unpredictable developments, including courts granting increasingly larger awards for certain damages, natural disasters (such as catastrophic hurricanes, windstorms, tornadoes, earthquakes, wildfires and floods), fluctuations in interest rates, changes in the investment environment that affect market prices of investments and inflationary pressures, affect the industry's profitability. The effects of cyclicalities could significantly and negatively affect our financial condition and results of operations.

***Global economic downturns and any significant weakness in the U.S. economy could harm our business, our liquidity and financial condition and our stock price.***

Weak economic conditions may adversely affect (among other aspects of our business) the demand for and claims made under our products, the ability of customers, counterparties and others to establish or maintain their relationships with us, our ability to access and efficiently use internal and external capital resources and our investment performance. Volatility in the U.S. and other securities markets may adversely affect our investment portfolio and our stock price.

***A downgrade in our ratings below specified levels or a significant decrease in our capital or surplus could enable certain clients to terminate reinsurance agreements or to require additional collateral.***

Certain of our assumed reinsurance contracts contain provisions that permit our clients to cancel the contract or require additional collateral in the event of a downgrade in our ratings below specified levels or a reduction of our capital or surplus below specified levels over the course of the agreement. Whether a client would exercise such cancellation rights would likely depend, among other things, on the reason the provision is triggered, the prevailing market conditions, the degree of unexpired coverage and the pricing and availability of replacement reinsurance coverage.

If any such provisions were to become exercisable, we cannot predict whether or how many of our clients would actually exercise such rights or the extent to which they would have a significant and negative effect on our financial condition, results of operations or future prospects but they could have a significant adverse effect on the operations of our Company.

***Operational risks, including human or systems failures, are inherent in our business.***

Operational risks and losses can result from, among other things, fraud, errors, failure to document transactions properly or to obtain proper internal authorization, failure to comply with regulatory requirements, information technology failures or external events.

We believe that our modeling, underwriting and information technology and application systems are critical to our business. We utilize modeling tools to facilitate our pricing, reserving, and risk management tools to manage risks in our reinsurance portfolio. These models help us to control risk accumulation, inform management and other stakeholders of capital requirements and to improve the risk/return profile or minimize the amount of capital required to cover the risks in each reinsurance contract. However, given the inherent uncertainty of modeling techniques and the application of such techniques, these models and databases may not accurately address the emergence of a variety of matters which might be deemed to impact certain of our coverages. These models have been developed internally and in some cases they make use of third party software. The construction of these models and the selection of assumptions requires significant actuarial judgment. Furthermore, these models typically rely on either cedent or industry data, both of which may be incomplete or may be subject to errors. Accordingly, these models may understate the exposures we are assuming and our financial results may be adversely impacted, perhaps significantly.

Moreover, our information technology and application systems have been an important part of our underwriting process and our ability to compete successfully. We have also licensed certain systems and data from third parties. We cannot be certain that we will have access to these, or comparable, service providers, or that our information technology or application systems

will continue to operate as intended. Like all companies, our information technology and application systems may be vulnerable to data breaches, interruptions or failures due to events that may be beyond our control, including, but not limited to, natural disasters, theft, terrorist attacks, malicious cyber-attacks, computer viruses, hackers and general technology failures. A major defect or failure in our internal controls or information technology and application systems could result in management distraction, a violation of applicable privacy or other laws, harm our reputation, cause a loss of customers or give rise to monetary fines or penalties or otherwise increase expenses. We believe appropriate controls and mitigation procedures are in place to prevent significant risk of data breaches, interruptions or failures in, information technology and application systems, but internal controls provide only a reasonable, not absolute, assurance as to the absence of errors or irregularities and any ineffectiveness of such controls and procedures could have a material adverse effect on our business.

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

Substantially all of our business is placed through brokered transactions, which involve a limited number of reinsurance brokers which exposes us to concentration risk. In 2017, we had two brokers (2016: two brokers) who each accounted for more than 10% of our gross written premiums, and in the aggregate they accounted for approximately 71.0% (2016: 70.8%) of our gross premiums written. Because broker-produced business is concentrated with a small number of brokers, we are exposed to concentration risk. To lose or fail to expand all or a substantial portion of the business provided through brokers, could significantly and negatively affect our business and results of operations.

***We may need additional capital in the future in order to operate our business, and such capital may not be available to us or may not be available to us on favorable terms.***

We may need to raise additional capital in the future through public or private equity or debt offerings or otherwise in order to:

- fund liquidity needs caused by underwriting or investment losses;
- meet rating agency capital requirements;
- replace capital lost in the event of significant reinsurance losses or adverse reserve developments or significant investment losses;
- satisfy collateral requirements that may be imposed by our clients or by regulators;
- meet applicable statutory jurisdiction requirements; or
- respond to competitive pressures.

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

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

Certain of our reinsurance operations expose us to claims arising out of unpredictable catastrophic events, such as hurricanes, hailstorms, tornadoes, windstorms, severe winter weather, earthquakes, floods, droughts, fires, explosions, volcanic eruptions and other natural or man-made disasters such as acts of war or terrorism, cyber attacks, major aircraft crashes, riots or political unrest. The incidence and severity of catastrophes are inherently unpredictable, but we believe, and recent scientific studies have indicated, that the frequency of Atlantic basin hurricanes has increased and may change further in the future relative to the historical experience over the past 100 years. As a result of changing climate conditions, such as global warming, there may be increases in the frequency and severity of natural catastrophes and the losses that result from them. Further, it could impact the affordability and availability of homeowners insurance, which could have an impact on pricing. We monitor and adjust, as we believe appropriate, our risk management models to reflect our judgment of how to interpret current developments and information, such as these studies. We believe that factors including increases in the value and geographic concentration of insured property, particularly along coastal regions, the increasing risk of extreme weather events reflecting changes in climate and ocean temperatures, and the effects of inflation may continue to increase the severity of claims from catastrophic events in the future.

Claims from catastrophic events could reduce our earnings and cause substantial volatility in our results of operations for any fiscal quarter or year and adversely affect our financial condition. Corresponding reductions in our surplus levels could impact our ability to write new reinsurance policies.

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

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

In our proportional reinsurance business, in which we assume an agreed percentage of each underlying insurance contract being reinsured, or quota share contracts, we do not expect to separately evaluate each of the original individual risks assumed under these reinsurance contracts. Therefore, we are largely dependent on the original underwriting decisions made by ceding companies. We are subject to the risk that the clients may not have adequately evaluated the insured risks and that the premiums ceded may not adequately compensate us for the risks we assume. We also do not separately evaluate each of the individual claims made on the underlying insurance contracts under quota share contracts. Therefore, we are dependent on the original claims decisions made by our clients.

***We could face unanticipated losses from political instability which could have a material adverse effect on our financial condition and results of operations.***

We could be exposed to unexpected losses on our reinsurance contracts resulting from political instability and other politically driven events globally. These risks are inherently unpredictable and recent events may indicate an increased frequency and severity of losses. It is difficult to predict the timing of these events or to estimate the amount of loss that any given occurrence will generate. To the extent that losses from these risks occur, our financial condition and results of operations could be significantly and negatively affected.

***Our failure to maintain sufficient collateral arrangements or to increase our collateral capacity on commercially acceptable terms as we grow could significantly and negatively affect our ability to implement our business strategy.***

We are not licensed or admitted as a reinsurer in any jurisdiction other than the Cayman Islands and the European Economic Area. Certain jurisdictions, including the United States, do not permit insurance companies to take credit for

reinsurance obtained from unlicensed or non-admitted insurers on their statutory financial statements unless appropriate security measures are implemented. Consequently, certain clients will require us to provide collateral often in the form of a letter of credit, a trust agreement or funds withheld. When we provide collateral, we are customarily required to provide collateral to the letter of credit provider or beneficiary of the trust agreement. Our ability to provide collateral, and the costs at which we provide collateral, are primarily dependent on the composition of our investment portfolio.

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

Our investment portfolio is used to provide collateral so that letters of credit and trust agreements can be issued. In the event of a decline in the market value of our investment portfolio that results in a collateral shortfall, we have the right, at our option, to reduce the outstanding obligations under the applicable letter of credit facility or trust agreement, to deposit additional collateral or to change the collateral composition in order to cure the shortfall. If the shortfall is not cured within the prescribed time period, an event of default will immediately occur. We will be prohibited from issuing additional letters of credit or enter into new trusts until any shortfall is cured.

Our access to funds under our existing credit facilities is dependent on the ability of the banks that are parties to the facilities to meet their funding commitments. Those banks may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time, and we might be forced to replace credit sources in a difficult market.

Any significant consolidation in the financial industry could lead to increased reliance on and exposure to particular institutions. If we cannot obtain adequate capital or sources of credit on favorable terms, or at all, our business, operating results and financial condition could be adversely affected. It is possible that, in the future, rating agencies may reduce our existing ratings. If one or more of our ratings were downgraded, we could incur higher borrowing costs and our ability to access the capital markets could be impacted. Our inability to obtain adequate capital could have a significant and negative effect on our business, financial condition and results of operations.

We may need additional collateral capacity as we grow, and if we are unable to renew, maintain or increase our collateral facilities or are unable to do so on commercially acceptable terms we may need to liquidate all or a portion of our investment portfolio and invest in a fixed-income portfolio or other forms of investment acceptable to our clients and banks as collateral, which could significantly and negatively affect our ability to implement our business strategy.

***Our failure to comply with restrictive covenants contained in our current or future credit facilities could trigger prepayment obligations, which could adversely affect our business, financial condition and results of operations.***

Each of our credit facilities requires us and/or certain of our subsidiaries to comply with certain covenants, including restrictions on our ability to place a lien or charge on pledged assets, issue debt and in certain circumstances on the payment of dividends. Our failure to comply with these or other covenants could result in an event of default under one or more credit facilities or any credit facility we may enter into in the future, which, if not cured or waived, could result in us being required to repay the amounts outstanding under these facilities prior to maturity. As a result, our business, financial condition and results of operations could be significantly and negatively affected.

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

Our future success depends, to a significant extent, on the efforts of our senior management and other key personnel to implement our business strategy. We believe there are only a limited number of available, qualified executives with substantial experience in our industry. We could face challenges attracting and retaining personnel in the Cayman Islands and/or in Dublin, Ireland. Accordingly, the loss of the services of one or more of the members of our senior management or other key personnel, or our inability to hire and retain other key personnel, could prevent us from continuing to implement our business strategy and, consequently, significantly and negatively affect our business.

We do not currently maintain key man life insurance with respect to any of our senior management, including our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Underwriting Officer or General Counsel. If any member of senior management dies or becomes incapacitated, or leaves the Company to pursue employment opportunities elsewhere, we would be solely responsible for locating an adequate replacement for such senior management and for bearing any related cost. To the extent that we are unable to locate an adequate replacement or are unable to do so within a reasonable period of time, our business may be significantly and negatively affected.

***Our ability to implement our business strategy could be adversely affected by Cayman Islands employment restrictions.***

Under Cayman Islands law, persons who are not Caymanian, do not possess Caymanian status, or are not otherwise entitled to reside and work in the Cayman Islands pursuant to provisions of the Immigration Law (2015 Revision) of the Cayman Islands, which we refer to as the Immigration Law, may not engage in any gainful occupation in the Cayman Islands without an appropriate governmental work permit. Such a work permit may be granted or extended on a continuous basis for a maximum period of nine years (after having been legally and ordinarily resident in the Cayman Islands for a period of eight years a person may apply for permanent residence in accordance with the provisions of the Immigration Law) upon showing that, after proper public advertisement, no Caymanian or person of Caymanian status, or other person legally and ordinarily resident in the Cayman Islands who meets the minimum standards for the advertised position is available. The failure of these work permits to be granted or extended could prevent us from continuing to implement our business strategy.

***We may be subject to the credit risk of our brokers, cedents and agents.***

In accordance with industry practice, we frequently pay amounts owed on claims under our policies to reinsurance brokers, and these brokers, in turn, remit these amounts to the ceding companies that have reinsured a portion of their liabilities with us. In some jurisdictions, if a broker fails to make such a payment, we might remain liable to the client for the deficiency notwithstanding the broker's obligation to make such payment. Conversely, in certain jurisdictions, when the client pays premiums for policies to reinsurance brokers for payment to us, these premiums are considered to have been paid and the client will no longer be liable to us for these premiums, whether or not we have actually received them. Consequently, we assume a degree of credit risk associated with brokers around the world.

In addition, we are also exposed to the credit risk of our cedents and agents, who, pursuant to their contracts with us, may be required to pay us profit commission, additional premiums, reinstatement premiums, and adjustments to ceding commissions over a period of time, which in some cases may extend beyond the initial period of risk coverage. Insolvency, liquidity problems, distressed financial condition or the general effects of an economic recession may increase the risk that our cedents or agents may not pay a part of or the full amount of their obligations to us. To the extent our cedents or agents become unable to pay us, we would be required to recognize a downward adjustment to our premiums receivable or reinsurance recoverables, as applicable, in our financial statements. While we generally seek to mitigate this risk through, among other things, collateral agreements, funds withheld, corporate guarantees and right of offset of receivables against any losses payable, an increased inability of customers to fulfill their obligations to us could have an adverse effect on our financial condition and results of operations.

Our reinsurance balances receivable at December 31, 2017 totaled \$301.8 million, which included premiums and ceding commissions receivable, a majority of which are not collateralized. We cannot assure you that such receivables will be collected or that valuation allowances or write downs for uncollectible recoverable amounts will not be required in future periods.

***We may be unable to purchase reinsurance for the liabilities we reinsure, and if we successfully purchase such reinsurance, we may be unable to collect, which could adversely affect our business, financial condition and results of operations.***

We purchase reinsurance for certain liabilities we reinsure, which we refer to as retrocessional coverage, in order to mitigate the effect of a potential concentration of losses upon our financial condition. The insolvency or inability or refusal of a retrocessionaire to make payments under the terms of its agreement with us could have an adverse effect on us because we remain liable to our client. From time to time, market conditions have limited, and in some cases have prevented, reinsurers from obtaining the types and amounts of retrocessional coverage that they consider necessary for their business needs. Accordingly, we may not be able to obtain our desired amounts of retrocessional coverage or negotiate terms that we deem appropriate or acceptable or obtain retrocessional coverage from entities with satisfactory creditworthiness. Our failure to establish adequate retrocessional arrangements or the failure of our retrocessional arrangements to protect us from overly concentrated risk exposure could significantly and negatively affect our business, financial condition and results of operations.

***The failure of any risk management and loss limitation methods we employ, as well as an unexpected accumulation of attritional losses, could have a material adverse effect on our financial condition and results of operations.***

We seek to limit our loss exposure in a variety of ways, including by writing many of our reinsurance contracts on an excess of loss basis, adhering to maximum limitations on policies written in defined geographical zones, limiting program size for each client, establishing per risk and per occurrence limitations for each event, employing coverage restrictions and following prudent underwriting guidelines for each program written. In the case of proportional treaties, we generally seek per occurrence limitations or loss ratio caps to limit the impact of losses from any one event. We also seek to limit our loss exposure through geographic diversification. Notwithstanding these loss limitation techniques, one or more future catastrophic or other events could result in claims that substantially exceed our expectations in ways limiting the applicability of these techniques, which could have a material adverse effect on our financial condition and results of operations.

***Non-compliance with laws, regulations and taxation regarding transactions with international counter-parties may adversely affect our business.***

As we provide reinsurance on a worldwide basis, we are subject to an expanding legal, regulatory and tax environment intended to help detect and prevent anti-trust activity, money laundering, terrorist financing, fraud, tax avoidance and other illicit activity. These requirements include, among others, regulations promulgated and administered by CIMA, the U.S. Department of the Treasury's Office of Foreign Assets Control, The Foreign Corrupt Practices Act of 1977, the Iran Freedom and Counter-Proliferation Act of 2012 and the Foreign Account Tax Compliance Act. These and other programs prohibit or restrict dealings with certain countries, their governments and, in certain circumstances, their nationals and may require detailed reporting to various administrative parties. Non-compliance with any of these regulations could have a material adverse effect on our ability to conduct our business.

***Currency fluctuations could result in exchange rate losses and negatively impact our business.***

Our functional currency is the U.S. dollar. However, we expect that we will write a portion of our business and receive premiums and pay claims in currencies other than the U.S. dollar. We may incur foreign currency exchange gains or losses as we ultimately receive premiums and settle claims in foreign currencies. In addition, DME Advisors may invest a portion of our portfolio in securities or cash denominated in currencies other than the U.S. dollar. Consequently, we may experience exchange rate losses to the extent any of our foreign currency exposure is not hedged, which could significantly and negatively affect our business. If we do seek to hedge our foreign currency exposure through the use of forward foreign currency exchange contracts or currency swaps, we will be subject to the risk that our counterparties to the arrangements fail to perform.

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

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

Under Delaware law, interested party transactions are voidable.

### **Risks Relating to Insurance and Other Regulations**

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

We are presently licensed as a reinsurer only in the Cayman Islands and the European Economic Area. The suspension or revocation of our licenses to do business as a reinsurance company in either of these jurisdictions for any reason would mean that we would not be able to enter into any new reinsurance contracts in that jurisdiction until the suspension ended or we became licensed in another jurisdiction. The process of obtaining licenses is very time consuming and costly, and we may not be able to become licensed in another jurisdiction in the event we chose to. Any such suspension or revocation of our license would negatively impact our reputation in the reinsurance marketplace and could have a material adverse effect on our results of operations.

CIMA and CBI may take a number of actions, including suspending or revoking a reinsurance license whenever the regulatory body believes that a licensee is or may become unable to meet its obligations, is carrying on business in a manner likely to be detrimental to the public interest or to the interest of its creditors or policyholders, has contravened the terms of the Law or has otherwise behaved in such a manner so as to cause such regulatory body to call into question the licensee's fitness.

Further, based on statutes, regulations and policies in their respective jurisdictions, CIMA and CBI may suspend or revoke our license if:

- we cease to carry on reinsurance business;
- the direction and management of our reinsurance business has not been conducted in a fit and proper manner;
- a person holding a position as a director, manager or officer is not a fit and proper person to hold the respective position; or
- we become bankrupt or go into liquidation or we are wound up or otherwise dissolved.

Similarly, if CIMA suspended or revoked our license, we could lose our exemption under the Investment Company Act of 1940, as amended (the "Investment Company Act") (See "*— We are subject to the risk of possibly becoming an investment company under U.S. federal securities law.*")

***Our reinsurance subsidiaries are subject to minimum capital and surplus requirements, and our failure to meet these requirements could subject us to regulatory action.***

The Insurance (Capital and Solvency) (Classes B, C, and D Insurers) Regulations, 2012 (the "Capital and Solvency Regulations") impose on Greenlight Re a minimum capital requirement of US\$50 million, a prescribed capital requirement of US\$329.7 million and a requirement to maintain solvency equal to or in excess of the total prescribed capital requirement (the "Capital Requirements"). As of December 31, 2017, Greenlight Re was in compliance with the Capital Requirements.

Under the prudential regime applying prior to the introduction of Solvency II, GRIL, our Irish subsidiary, was required to maintain statutory reserves, particularly in respect of underwriting liabilities. Effective January 1, 2016, Solvency II introduced risk-based solvency requirements which GRIL is required to comply with, including calculating and maintaining a minimum capital requirement and solvency capital requirement. As of December 31, 2017, GRIL's minimum capital requirement and

solvency capital requirement was approximately \$9.9 million and \$39.4 million, respectively. As of December 31, 2017, GRIL has been in compliance with the capital requirements required under the Irish Insurance Acts and Regulations.

Any failure to meet applicable requirements or minimum statutory capital requirements could subject us to further examination or action by regulators, including restrictions on dividend payments, limitations on our writing of additional business or engaging in financial or other activities, enhanced supervision, financial or other penalties or liquidation. Further, any changes in existing risk based capital requirements or minimum statutory capital requirements may require us to increase our statutory capital levels, which we might be unable to do.

***We are a holding company that depends on the ability of our subsidiaries to pay dividends.***

We are a holding company and do not have any significant operations or assets other than our ownership of the shares of our subsidiaries. Dividends and other permitted distributions from our subsidiaries are our primary source of funds to meet ongoing cash requirements, including future debt service payments, if any, and other expenses, and to pay dividends to our shareholders if we choose to do so. Some of our subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. The inability of our subsidiaries to pay dividends in an amount sufficient to enable us to meet our cash requirements at the holding company level could have an adverse effect on our operations and our ability to pay dividends to our shareholders if we choose to do so and/or meet our debt service obligations, if any.

To the extent any of our subsidiaries located in jurisdictions other than the Cayman Islands consider declaring dividends, such subsidiaries are required to comply with restrictions set forth under applicable law and regulations in such other jurisdictions. These restrictions could adversely impact the Company.

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

In the United States, the Investment Company Act regulates certain companies that invest in or trade securities. We rely on an exemption under the Investment Company Act for an entity organized and regulated as a foreign insurance company which is engaged primarily and predominantly in the reinsurance of risks on insurance agreements. The law in this area is subjective and there is a lack of guidance as to the meaning of “primarily and predominantly” under the relevant exemption to the Investment Company Act. For example, there is no standard for the amount of premiums that need to be written relative to the level of an entity’s capital in order to qualify for the exemption. If this exemption were deemed inapplicable, we would have to register under the Investment Company Act as an investment company. Registered investment companies are subject to extensive, restrictive and potentially adverse regulation relating to, among other things, operating methods, management, capital structure, leverage, dividends and transactions with affiliates. Registered investment companies are not permitted to operate their business in the manner in which we operate our business, nor are registered investment companies permitted to have many of the relationships that we have with our affiliated companies. Accordingly, we likely would not be permitted to engage DME Advisors as our investment advisor, unless we obtained board and shareholder approvals under the Investment Company Act. If DME Advisors were not our investment advisor, we would seek to identify and retain another investment advisor with a value-oriented investment philosophy. If we could not identify or retain such an advisor, we would be required to make substantial modifications to our investment strategy. Any such changes to our investment strategy could significantly and negatively impact our investment results, financial condition and our ability to implement our business strategy.

If at any time it were established that we had been operating as an investment company in violation of the registration requirements of the Investment Company Act, there would be a risk, among other material adverse consequences, that we could become subject to monetary penalties or injunctive relief, or both, or that we would be unable to enforce contracts with third parties or that third parties could seek to obtain rescission of transactions with us undertaken during the period in which it was established that we were an unregistered investment company.

To the extent that the laws and regulations change in the future so that contracts we write are deemed not to be reinsurance contracts, we will be at greater risk of not qualifying for the Investment Company Act exception. Additionally, it is possible that our classification as an investment company would result in the suspension or revocation of our reinsurance license.



***Insurance regulations to which we are, or may become, subject, and potential changes thereto, could have a significant and negative effect on our business.***

We currently are admitted to do business in the Cayman Islands and the European Economic Area. Our operations in each of these jurisdictions are subject to varying degrees of regulation and supervision. The laws and regulations of the jurisdictions in which our subsidiaries are domiciled require that, among other things, these subsidiaries maintain minimum levels of statutory or regulatory capital, surplus and liquidity, meet solvency standards, submit to periodic examinations of their financial condition and restrict payments of dividends and reductions of capital. Statutes, regulations and policies that our subsidiaries are subject to may also restrict the ability of these subsidiaries to write insurance and reinsurance policies, make certain investments and distribute funds.

More specifically with respect to our Irish subsidiary, European legislation known as “Solvency II”, was introduced with effect from January 1, 2016 and governs the prudential regulation of insurers and reinsurers, and requires insurers and reinsurers in Europe to meet risk-based solvency requirements. It also imposes group solvency and governance requirements on groups with insurers and/or reinsurers operating in the European Economic Area. A number of European Commission delegated acts and technical standards have been adopted, which set out more detailed requirements based on the overarching provisions of the Solvency II Directive. However, further delegated acts, technical standards and guidance are likely to be published on an ongoing basis.

Although we do not presently expect that we will be admitted to do business in any other jurisdiction other than the Cayman Islands and the European Economic Area, we cannot assure you that insurance regulators in the United States or elsewhere will not review our activities and claim that we are subject to such jurisdiction’s licensing requirements. In addition, we are subject to indirect regulatory requirements imposed by jurisdictions that may limit our ability to provide reinsurance. For example, our ability to write reinsurance may be subject, in certain cases, to arrangements satisfactory to applicable regulatory bodies, and proposed legislation and regulations may have the effect of imposing additional requirements upon, or restricting the market for, non-U.S. reinsurers such as Greenlight Re and GRIL, with whom domestic companies may place business. We do not know of any such proposed legislation pending at this time.

We may not be able to comply fully with, or obtain desired exemptions from, revised statutes, regulations and policies that currently, or may in the future, govern the conduct of our business. Failure to comply with, or to obtain desired authorizations and/or exemptions under, any applicable laws could result in restrictions on our ability to do business or undertake activities that are regulated in one or more of the jurisdictions in which we operate and could subject us to fines and other sanctions.

In addition, governmental authorities worldwide have become increasingly interested in potential risks posed by the insurance industry as a whole, and to the commercial and financial systems in general. While we cannot predict the exact nature, timing or scope of possible governmental initiatives, there may be increased regulatory intervention in our industry in the future. Changes in the laws or regulations to which our subsidiaries are subject or may become subject, or in the interpretations thereof by enforcement or regulatory agencies, could have a material adverse effect on our business.

#### **Risks Relating to Our Investment Strategy and Our Investment Advisor**

***We have limited control as to how our investment portfolio is allocated and its performance depends on the ability of DME Advisors to select and manage appropriate investments.***

DME Advisors acts as our exclusive investment advisor for our investment portfolio and recommends appropriate investment opportunities. Although DME Advisors is contractually obligated to follow our investment guidelines, we cannot assure shareholders as to how assets will be allocated to different investment opportunities, including long and short positions and derivatives trading, which could increase the level of risk to which our investment portfolio will be exposed. In addition, DME Advisors can outsource to sub-advisors without our consent or approval.

The performance of our investment portfolio depends to a great extent on the ability of DME Advisors to select and manage appropriate investments. Our advisory agreement with DME Advisors terminates on December 31, 2019, unless extended, and we have limited ability to terminate the advisory agreement earlier. We cannot assure you that DME Advisors will be successful in meeting our investment objectives or that the advisory agreement with DME Advisors will be renewed. The failure of DME Advisors to perform adequately could significantly and negatively affect our business, results of operations and financial condition.

***The historical performance of DME Advisors and its affiliates should not be considered as indicative of the future results of our investment portfolio or of our future results or of any returns expected on our Class A ordinary shares.***

The historical returns of the funds managed by DME Advisors and its affiliates are not directly linked to our Class A ordinary shares. Results for our investment portfolio could differ from results of the other funds managed by DME Advisors and its affiliates as a result of restrictions imposed by our investment guidelines and other factors. In addition, even if our investment portfolio generates investment income in a given period, our overall performance could be adversely affected by losses generated by our reinsurance operations. Poor performance of our investment portfolio will cause a decline in our revenue and will therefore have a negative effect on our financial performance.

***We depend upon DME Advisors to implement our investment strategy.***

We depend upon DME Advisors to implement our investment strategy. Accordingly, the diminution or loss of the services of DME Advisors could significantly affect our business. DME Advisors, in turn, is dependent on the talents, efforts and leadership of DME Advisors' principals. The diminution or loss of the services of DME Advisors' principals, or diminution or loss of their reputation and integrity or any negative market or industry perception arising from that diminution or loss, could have a material adverse effect on our business. In addition, the loss of DME Advisors' key personnel, or DME Advisors' inability to hire and retain other key personnel, over which we have no control, could delay or prevent DME Advisors from fully implementing our investment strategy on our behalf, and consequently, could significantly and negatively affect our business.

Our advisory agreement with DME Advisors does not allow us to terminate the agreement in the event that DME Advisors loses any or all of its principals or key personnel. The advisory agreement expires on the date on which the venture agreement expires or terminates for any reason. The venture agreement requires that we utilize the advisory services of DME Advisors or its affiliates exclusively until December 31, 2019, subject to limited termination provisions. See “— *The venture agreement and the advisory agreements have limited termination provisions.*”

***Our investment performance may suffer as a result of adverse financial market developments or other factors that impact our liquidity, which could in turn adversely affect our financial condition and results of operations.***

We may derive a significant portion of our income from our investment portfolio. As a result, our operating results depend in part on the performance of our investment portfolio. We strive to structure our investments in a manner that recognizes our liquidity needs for future liabilities. We cannot assure you that DME Advisors will successfully structure our investments in relation to our anticipated liabilities. Failure to do so could force us to liquidate investments at a significant loss or at prices that are not optimal, which could significantly and adversely affect our financial results.

The risks associated with DME Advisors' value-oriented investment strategy may be substantially greater than the risks associated with traditional fixed-income investment strategies. In addition, long equity investments may generate losses if the market declines. Similarly, short equity investments may generate losses in a rising market. The success of our investment strategy may also be affected by general economic conditions. Unexpected market volatility and illiquidity associated with our investments could significantly and negatively affect our investment portfolio results.

***Potential conflicts of interest with DME Advisors may exist that could adversely affect us.***

In addition to managing the investment portfolio, DME Advisors, the principals and their affiliates may engage in investment and trading activities for their own accounts and/or for the accounts of third parties. None of DME Advisors or its principals, including David Einhorn, Chairman of our Board of Directors and the President of Greenlight Capital, Inc., are obligated to devote any specific amount of time to the affairs of our Company. Affiliates of DME Advisors, including Greenlight Capital, Inc., manage and expect to continue to manage other client accounts, some of which have objectives similar to ours, including collective investment vehicles managed by DME Advisors' affiliates and in which DME Advisors or its affiliates may have an equity interest. Pursuant to our advisory agreement with DME Advisors, DME Advisors has the exclusive right to manage our investment portfolio and is required to follow our investment guidelines and act in a manner that is fair and equitable in allocating investment opportunities to us, but the agreement does not otherwise impose any specific obligations or requirements concerning allocation of time, effort or investment opportunities to us or any restriction on the nature or timing of investments for our account or other accounts that DME Advisors or its affiliates may manage. If we compete for any investment opportunity with another entity that DME Advisors or its affiliates manage, DME Advisors is not required to afford us any exclusivity or priority. DME Advisors' interest and the interests of its affiliates, including Greenlight Capital, Inc., may at times conflict, possibly to DME Advisors' detriment, which in turn may potentially adversely affect our investment opportunities and returns.

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

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

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

Our investment guidelines provide that DME Advisors may commit up to 20% of Greenlight Re's assets under management (10% for GRIL) to any one investment. In addition, GRIL's investment guidelines require that the 10 largest investments shall not constitute more than 50% of the total investment portfolio and GRIL's investment portfolio shall at all times be comprised of a minimum of 50 debt or equity securities of publicly traded companies. Accordingly, from time to time we may hold a few, relatively large security positions in relation to our capital. As of December 31, 2017, we were invested in approximately 70 equity and debt securities and the largest five long and short positions comprised an aggregate of 47% and 25%, respectively, of our investment portfolio. Since our investment portfolio may not be widely diversified, it may be subject to more rapid changes in value than would be the case if the investment portfolio were required to maintain a wide diversification among companies, securities and types of securities.

***If DME Advisor's risk management systems are ineffective, we may be exposed to material unanticipated losses.***

DME Advisors continually refines its risk management techniques, strategies and assessment methods. However, its risk management techniques and strategies do not fully mitigate the risk exposure of its funds and managed accounts, including our investment portfolio, in all economic or market environments, or against all types of risk, including risks that it might fail to identify or anticipate. Any failures in DME Advisors' risk management techniques and strategies to accurately quantify risk exposure could limit the risk-adjusted returns of our investment portfolio. In addition, any risk management failures could cause losses to be significantly greater than historical measures predict. DME Advisors' approach to managing those risks could prove insufficient, exposing us to material unanticipated losses in our investment portfolio.

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

We are exposed to credit risk primarily from the possibility that counterparties may default on their obligations to us. The amount of the maximum exposure to credit risk is indicated by the carrying value of our financial assets. In addition, we hold the securities of our investment portfolio with several prime brokers and have credit risk from the possibility that one or more of them may default on their obligations to us. Other than our investment in derivative contracts and corporate debt, if any, and the fact that our investments are held by prime brokers and custodians on our behalf, we have no other significant concentrations of credit risk.

Issuers or borrowers whose securities or debt we hold, customers, reinsurers, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors may default on their obligations to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Such defaults could have a significant and negative effect on our results of operations, financial condition and cash flows. Additionally, the underlying assets supporting our financial contracts may deteriorate causing these securities to incur losses.

***DME Advisors may trade on margin and use other forms of financial leverage, which could potentially adversely affect our revenues.***

Our investment guidelines provide DME Advisors with the ability to trade on margin and use other forms of financial leverage. Fluctuations in the market value of our investment portfolio could have a disproportionately large effect in relation to our capital. Any event which may adversely affect the value of positions we hold could significantly and negatively affect the net asset value of our investment portfolio and thus our results of operations.

***DME Advisors effectuates short sales that subject us to unlimited loss potential.***

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

***DME Advisors may transact in derivative instruments, which may increase the risk of our investment portfolio.***

Derivative instruments, or derivatives, include futures, options, swaps, structured securities and other instruments and contracts that derive their value from one or more underlying securities, financial benchmarks, currencies, commodities or indices. There are a number of risks associated with derivatives trading. Because many derivatives are leveraged, and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement may result in a substantial loss, and may potentially expose us to a loss exceeding the original amount invested. Derivatives may also expose us to liquidity risk as there may not be a liquid market within which to close or dispose of outstanding derivative contracts. The counterparty risk lies with each party with whom we contract for the purpose of making derivative investments. In the event of the counterparty's default, we will generally only rank as an unsecured creditor and risk the loss of all or a portion of the amounts we are contractually entitled to receive.

***The compensation arrangements of DME and DME Advisors may create an incentive to effect transactions that are risky or speculative.***

Pursuant to the venture agreement and the advisory agreement, we are obligated to pay the following:

- a 1.5% annual management fee to DME Advisors, regardless of the performance of our investment account, payable monthly based on the capital account balance of each participant; and
- a performance allocation to DME based on the positive performance change in such participant's capital account equal to 20% of net profits calculated per annum, subject to a loss carry forward provision.

The loss carry forward provision allows DME to earn reduced performance allocation of 10% of profits in any year subsequent to the year in which our investment account managed by DME Advisors incurs a loss, until all losses are recouped and an additional amount equal to 150% of the loss is earned.

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

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

DME Advisors may from time to time place its or its affiliates' representatives on creditors' committees and/or boards of certain companies in which we have invested. While such representation may enable DME Advisors to enhance the sale value of our investments, it may also prevent us from freely disposing of our investments and may subject us to indemnification liability. The advisory agreement provides for the indemnification of DME Advisors or any other person designated by DME Advisors for claims arising from such board representation.

As of December 31, 2017, representatives of DME Advisors (including Mr. Einhorn) sat on the board of Green Brick Partners Inc., whose securities are publicly traded and were included in our portfolio as of December 31, 2017.

***The ability to use "soft dollars" may provide DME Advisors with an incentive to select certain brokers that may take into account benefits to be received by DME Advisors.***

DME Advisors is entitled to use so-called "soft dollars" generated by commissions paid in connection with transactions for our investment portfolio to pay for certain of DME Advisors' operating and overhead costs, including the payment of all or a portion of its costs and expenses of operation. "Soft dollars" are a means of paying brokerage firms for their services through commission revenue, rather than through direct payments. DME Advisors' right to use soft dollars may give DME Advisors an incentive to select brokers or dealers for our transactions, or to negotiate commission rates or other execution terms, in a manner that takes into account the soft dollar benefits received by DME Advisors rather than giving exclusive consideration to the interests of our investment portfolio and, accordingly, may create a conflict. However, DME Advisors only uses soft dollars to pay for expenses that would otherwise be borne by us and certain other co-managed funds.

***The venture agreement and the advisory agreements have limited termination provisions.***

The venture agreement and the advisory agreements have limited termination provisions which restrict our ability to manage our investment portfolio outside of DME Advisors. Because these agreements contains exclusivity and limited termination provisions, we are unable to use investment managers other than DME Advisors for so long as the agreements are in effect. The agreements' current term ends on December 31, 2019 and will automatically renew for successive three-year terms unless at least 90 days prior to the end of the then current term, DME notifies us of its desire to terminate the agreements, or Greenlight Re or GRIL notifies DME of their desire to withdraw from the venture agreement. Greenlight Re or GRIL may also withdraw as participants under the venture agreement prior to the expiration of the venture agreement's term at any time only "for cause", which is defined as:

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

In addition, GRIL may withdraw as a participant under the venture agreement prior to the expiration of its term due to unsatisfactory long term performance of DME or DME Advisors, as determined solely by the Board of Directors of GRIL on each anniversary date of the venture agreement.

Greenlight Re may not withdraw or terminate the venture agreement on the basis of performance. If Greenlight Re becomes dissatisfied with the results of the investment performance of DME or DME Advisors, we will be unable to hire new investment managers until the venture agreement and the advisory agreement expires by its terms or is terminated for cause.

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

Our investment guidelines provide DME Advisors with the flexibility to invest in certain securities with limited liquidity or no public market. This lack of liquidity may adversely affect the ability of DME Advisors to execute trade orders at desired prices and may impact our ability to fulfill our payment obligations. To the extent that DME Advisors invests in securities or instruments for which market quotations are not readily available, under the terms of the advisory agreement the valuation of such securities and instruments for purposes of compensation to DME Advisors will be determined by DME Advisors, whose determination, subject to audit verification, will be conclusive and binding in the absence of bad faith or manifest error. Because the advisory agreement gives DME Advisors the power to determine the value of securities with no readily discernible market value, and because the calculation of DME Advisors' fee is based on the value of the investment account, a conflict may exist or arise.

In addition, for all securities traded on public exchanges, each exchange typically has the right to suspend or limit trading in all securities it lists. Such a suspension could render it impossible to liquidate positions and thereby expose us to losses.

***Increased regulation or scrutiny of alternative investment advisors may affect DME Advisors' ability to manage our investment portfolio or affect our business reputation.***

The regulatory environment for investment managers is evolving, and changes in the regulation of managers may adversely affect the ability of DME Advisors to obtain the leverage it might otherwise obtain or to pursue its trading strategies. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. Any future regulatory change could have a significant negative impact on our financial condition and results of operations.

Short sale transactions have been subject to increased regulatory scrutiny, including the imposition of restrictions on short selling certain securities and reporting requirements. Our ability to execute a short selling strategy may be materially and adversely impacted by temporary and/or new permanent rules, interpretations, prohibitions, and restrictions adopted in response to these adverse market events. Temporary restrictions and/or prohibitions on short selling activity may be imposed by regulatory authorities with little or no advance notice and may impact prior and future trading activities of our investment portfolio. Additionally, the SEC, its non-U.S. counterparts, other governmental authorities and/or self-regulatory organizations may at any time promulgate permanent rules or interpretations consistent with such temporary restrictions or that impose additional or different permanent or temporary limitations or prohibitions. The SEC might impose different limitations and/or prohibitions on short selling from those imposed by various non-U.S. regulatory authorities. These different regulations, rules or interpretations might have different effective periods.

Regulatory authorities may, from time-to-time, impose restrictions that adversely affect our ability to borrow certain securities in connection with short sale transactions. In addition, traditional lenders of securities might be less likely to lend securities under certain market conditions. As a result, we may not be able to effectively pursue a short selling strategy due to a limited supply of securities available for borrowing. We may also incur additional costs in connection with short sale transactions, including, if DME Advisors is required to enter into a borrowing arrangement in advance of any short sales. Moreover, the ability to continue to borrow a security is not guaranteed and we are subject to strict delivery requirements. The inability to deliver securities within the required time frame may subject us to mandatory close out by the executing broker-

dealer. A mandatory close out may subject us to unintended costs and losses. Certain action or inaction by third parties, such as executing broker-dealers or clearing broker-dealers, may materially impact our ability to effect short sale transactions.

***We may invest in securities based outside the United States which may be riskier than securities of United States issuers.***

Under our investment guidelines, DME Advisors may invest in securities of issuers organized or based outside the United States. These investments may be subject to a variety of risks and other special considerations not affecting securities of U.S. issuers. Particularly within the Euro-zone, there is increasing market concern as to the potential default of government issuers. Should governments default on their obligations, there could be a negative impact on both the Company's direct holdings as well as non-government issues held within the country of default. Many foreign securities markets are not as developed or efficient as those in the United States. Securities of some foreign issuers are less liquid and more volatile than securities of comparable U.S. issuers. Similarly, volume and liquidity in many foreign securities markets are less than in the United States and, at times, price volatility can be greater than in the United States. Non-U.S. issuers may be subject to less stringent financial reporting and informational disclosure standards, regulatory oversight, practices and requirements than those applicable to U.S. issuers.

**Risks Relating to our Class A Ordinary Shares**

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

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

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

Our Articles contain certain provisions that could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. Our Articles provide that a director may only be removed for "cause" as defined in the Articles, upon the affirmative vote of not less than 50% of the votes cast at a meeting at which more than 50% of our issued and outstanding Class A ordinary shares are represented. Further, under our Articles, a director may only be removed without cause upon the affirmative vote of not less than 80% of the votes cast at a meeting at which more than 50% of our issued and outstanding Class A ordinary shares are represented.

Our Articles permit our Board of Directors to issue preferred shares from time to time, with such rights and preferences as they consider appropriate. Our Board of Directors may authorize the issuance of preferred shares with terms and conditions and under circumstances that could have an effect of discouraging a takeover or other transaction, deny shareholders the receipt of a premium on their Class A ordinary shares in the event of a tender or other offer for Class A ordinary shares and have a depressive effect on the market price of the Class A ordinary shares.

As compared to mergers under corporate law in the United States, it may be more difficult to consummate a merger of two or more companies in the Cayman Islands or the merger of one or more Cayman Islands companies with one or more overseas companies, even if such transaction would be beneficial to our shareholders. Cayman Islands law has statutory provisions that provide for the reconstruction and amalgamation of companies, which are commonly referred to, in the Cayman Islands, as "schemes of arrangement". The Companies Law (as amended) of the Cayman Islands (the "Companies Law") provides for the merger or consolidation of two or more companies that are Cayman Islands entities or the merger of one or more Cayman Islands companies with one or more overseas companies, where the surviving entity is either a Cayman Islands company or an overseas company. Prior to the adoption of certain amendments to the Companies Law, the "scheme of arrangement" was the only vehicle available to consolidate companies and Cayman Islands law did not provide for mergers as that term is understood under corporate law in the United States. Although the current merger provisions have made it faster

and easier for companies to merge or consolidate than the “schemes of arrangement” statutory provision, these provisions do not replace the “schemes of arrangement” provision which continues to apply. The procedural and legal requirements necessary to consummate these transactions under the merger provisions of the Companies Law or the “schemes of arrangement” provision may be more rigorous and take longer to complete than the procedures typically required to consummate a merger in the United States.

Under Cayman Islands law and practice, a “scheme of arrangement” must be approved at a shareholders’ meeting by each class of shareholders, in each case, by a majority of the number of holders of each class of an entity’s shares that are present and voting, either in person or by proxy, at such a meeting, which holders must also represent 75% in value of such class issued that are present and voting, either in person or by proxy, at such meeting, excluding the shares owned by the parties to the scheme of arrangement. A merger requires approval by special resolution of the shareholders of each company (which normally requires, as a minimum, a two thirds majority of shareholders voting together as one class) and such other authorization, if any, as may be specified in such constituent company’s articles of association.

Although a merger under the Companies Law does not require court approval, the convening of these meetings and the terms of an amalgamation under the “schemes of arrangement” provision must be sanctioned by the Grand Court of the Cayman Islands. Although there is no requirement to seek the consent of the creditors of the parties involved in the scheme of arrangement, the Grand Court typically seeks to ensure that the creditors have consented to the transfer of their liabilities to the surviving entity or that the scheme of arrangement does not otherwise materially adversely affect the creditors’ interests. Furthermore, the Grand Court will only approve a scheme of arrangement if it is satisfied that:

- the statutory provisions as to majority vote have been complied with;
- the shareholders have been fairly represented at the meeting in question;
- the scheme of arrangement is such as a businessman would reasonably approve; and
- the scheme of arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

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

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

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

We are incorporated as an exempted company limited by shares under the Companies Law. A significant amount of our assets are located outside of the United States. As a result, it may be difficult for persons purchasing Class A ordinary shares to effect service of process within the United States upon us or to enforce judgments against us or judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States or any state of the United States.

Although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will, based on the principle that a judgment by a competent foreign court will impose upon the judgment debtor an obligation to pay the sum for which judgment has been given, recognize and enforce a foreign judgment of a court of competent jurisdiction if such judgment is final, for a liquidated sum, not in respect of taxes or a fine or penalty if not inconsistent with a Cayman Islands judgment in respect of the same matters, and was not obtained in a manner, and is not of a kind, the enforcement of which is contrary to the public policy of the Cayman Islands. There is doubt, however, as to whether



the courts of the Cayman Islands will, in an original action in the Cayman Islands, recognize or enforce judgments of U.S. courts predicated upon the civil liability provisions of the securities laws of the United States or any state of the United States on the grounds that such provisions are penal in nature.

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

Unlike many jurisdictions in the United States, Cayman Islands law does not specifically provide for shareholder appraisal rights on a merger or consolidation of an entity. This may make it more difficult for shareholders to assess the value of any consideration they may receive in a merger or consolidation or to require that the offeror give a shareholder additional consideration if he believes the consideration offered is insufficient. Dissenting shareholders to a merger have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions.

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

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

***Provisions of our Articles may reallocate the voting power of our Class A ordinary shares and subject holders of Class A ordinary shares to SEC compliance.***

In certain circumstances, the total voting power of our Class A ordinary shares held by any one person will be reduced to less than 9.9% of the total issued and outstanding ordinary shares, and the total voting power of the Class B ordinary shares will be reduced to 9.5% of the total voting power of the total issued and outstanding ordinary shares. In the event a holder of our Class A ordinary shares acquires shares representing 9.9% or more of the total voting power of our total ordinary shares or the Class B ordinary shares represent more than 9.5% of the total voting power of our total outstanding shares, there will be an effective reallocation of the voting power of the Class A ordinary shares or Class B ordinary shares which may cause a shareholder to acquire 5% or more of the voting power of the total ordinary shares.

Such a shareholder may become subject to the reporting and disclosure requirements of Sections 13(d) and (g) of the Exchange Act. Such a reallocation also may result in an obligation to amend previous filings made under Section 13(d) or (g) of the Exchange Act. Under our Articles, we have no obligation to notify shareholders of any adjustments to their voting power. Shareholders should consult their own legal counsel regarding the possible reporting requirements under Section 13 of the Exchange Act.

As of December 31, 2017, David Einhorn owned 16.7% of the issued and outstanding ordinary shares, which given that each Class B share is entitled to ten votes, causes him to exceed the 9.5% limitation imposed on the total voting power of the Class B ordinary shares. Thus, the voting power held by the Class B ordinary shares that is in excess of the 9.5% limitation will be reallocated pro-rata to holders of Class A ordinary shares according to their percentage interest in the Company. However, no shareholder will be allocated voting rights that would cause it to have 9.9% or more of the total voting power of our ordinary shares. The allocation of the voting power of the Class B ordinary shares to a holder of Class A ordinary shares will depend upon the total voting power of the Class B ordinary shares outstanding, as well as the percentage of Class A ordinary shares held by a shareholder and the other holders of Class A ordinary shares. Accordingly, we cannot estimate with precision what multiple of a vote per share a holder of Class A ordinary shares will be allocated as a result of the anticipated reallocation of voting power of the Class B ordinary shares.

## **Risks Relating to Taxation**

***We may become subject to taxation in the Cayman Islands, which would negatively affect our results.***

Under current Cayman Islands law, we are not obligated to pay any taxes in the Cayman Islands on either income or capital gains. The Governor-in-Cabinet of Cayman Islands has granted us an exemption from the imposition of any such tax on us until February 1, 2025. We cannot be assured that after such date we would not be subject to any such tax. If we were to become subject to taxation in the Cayman Islands, our financial condition and results of operations could be significantly and negatively affected.

***Greenlight Capital Re, Greenlight Re and/or GRIL may be subject to United States federal income taxation.***

Greenlight Capital Re and Greenlight Re are incorporated under the laws of the Cayman Islands, and GRIL is incorporated under the laws of Ireland. These entities intend to operate in a manner that will not cause us to be treated as engaging in a trade or business within the United States and will not cause us to be subject to current United States federal income taxation on Greenlight Capital Re's, Greenlight Re's and/or GRIL's net income. However, because there are no definitive standards provided by the Internal Revenue Code, regulations or court decisions as to the specific activities that constitute being engaged in the conduct of a trade or business within the United States, and as any such determination is essentially factual in nature, we cannot assure you that the United States Internal Revenue Service (the "IRS"), will not successfully assert that Greenlight Capital Re, Greenlight Re and/or GRIL are engaged in a trade or business within the United States. If the IRS were to successfully assert that Greenlight Capital Re, Greenlight Re, and/or GRIL have been engaged in a trade or business within the United States in any taxable year, various adverse tax consequences could result, including the following: Greenlight Capital Re, Greenlight Re and/or GRIL may become subject to current United States federal income taxation on its net income from sources within the United States; Greenlight Capital Re, Greenlight Re and/or GRIL may be subject to United States federal income tax on a portion of its net investment income, regardless of its source; Greenlight Capital Re, Greenlight Re, and/or GRIL may not be entitled to deduct certain expenses that would otherwise be deductible from the income subject to United States taxation; and Greenlight Capital Re, Greenlight Re and/or GRIL may be subject to United States branch profits tax on profits deemed to have been distributed out of the United States.

***United States persons who own Class A ordinary shares may be subject to United States federal income taxation on our undistributed earnings and may recognize ordinary income upon disposition of Class A ordinary shares.***

*Passive Foreign Investment Company.* Significant potential adverse United States federal income tax consequences, including certain reporting requirements, generally apply to any United States person who owns shares in a passive foreign investment company, or a PFIC. We believe that each of Greenlight Capital Re and Greenlight Re was a PFIC in 2006, 2005 and 2004. We do not believe, although we cannot assure you, that none of Greenlight Capital Re, Greenlight Re or GRIL has been a PFIC from 2007 onwards. We cannot provide assurance that none of Greenlight Capital Re, Greenlight Re or GRIL will be a PFIC in any future taxable year.

In general, any of Greenlight Capital Re, Greenlight Re or GRIL would be a PFIC for a taxable year if either (i) 75% or more of its income constitutes "passive income" or (ii) 50% or more of its assets produce "passive income", or are held for the production of passive income. Passive income generally includes interest, dividends and other investment income but does not include income derived in the active conduct of an insurance business by a corporation predominantly engaged in an insurance business. As of January 1, 2018, the active conduct of an insurance business is defined as an insurance company which has applicable insurance liabilities, as reported on its annual financial statement, exceeding 25% of its total assets. Applicable insurance liabilities means, with respect to our property and casualty reinsurance business, reserves for loss and loss adjustment expenses, and excludes unearned premium reserves.

The exception for insurance companies is intended to ensure that a qualifying insurance entity's income is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. We intend to operate our business with financial reserves and applicable insurance liabilities at levels that

should not cause us to be deemed PFICs, although we cannot assure you that we will be successful in structuring our operations to meet such levels nor can we ensure that the IRS will not successfully challenge our status. If we are unable to underwrite sufficient amount of risks and maintain a sufficient amount of applicable insurance liabilities, any of Greenlight Capital Re, Greenlight Re or GRIL may become a PFIC.

In addition, sufficient risk must be transferred under an insurance entity's contracts with its insureds in order to qualify for the insurance exception. Whether our insurance contracts possess adequate risk transfer for purposes of determining whether income under our contracts is insurance income, and whether we are predominantly engaged in an insurance business, are subjective in nature and there is very little authority on these issues. We cannot assure you that the IRS will not successfully challenge our interpretation of the scope of the active insurance company exception and our qualification for the exception. Further, the IRS may issue regulatory or other guidance that causes us to fail to qualify for the active insurance company exception on a prospective or retroactive basis. Therefore, we cannot assure you that we will satisfy the exception for insurance companies and will not be treated as PFICs currently or in the future.

*Controlled Foreign Corporation.* United States persons who, directly or indirectly or through attribution rules, own 10% or more of the total combined voting power or value of our shares, which we refer to as United States 10% shareholders, may be subject to the controlled foreign corporation, or CFC, rules. Under the CFC rules, each United States 10% shareholder must annually include his pro-rata share of the CFC's "subpart F income" and "global intangible low-tax income" in his or her gross income in the year earned by the CFC, even if no distributions are made. In general, a foreign insurance company will be treated as a CFC only if during the taxable year United States 10% shareholders collectively own more than 25% of the total combined voting power or total value of the entity's shares. We believe that the dispersion of our Class A ordinary shares among holders and the restrictions placed on transfer, issuance or repurchase of our Class A ordinary shares, will in most cases prevent shareholders who acquire Class A ordinary shares from being United States 10% shareholders. We cannot assure you, however, that these rules will not apply to you if you are or become a United States 10% shareholder. In particular, recent changes to the definition of a United States 10% Shareholder, whereby both vote and value are tested, and recent changes to the constructive ownership rules, whereby shares owned by non-United States persons can be attributed to United States persons, may increase the likelihood of these rules applying. If you are a United States person, we strongly urge you to consult your own tax advisor concerning the CFC rules.

*Related Person Insurance Income.* If:

- our gross income attributable to insurance or reinsurance policies where the direct or indirect insureds are our direct or indirect United States shareholders or persons related to such United States shareholders equals or exceeds 20% of our gross insurance income in any taxable year; and
- direct or indirect insureds and persons related to such insureds owned directly or indirectly 20% or more of the voting power or value of our stock,

a United States person who owns Class A ordinary shares directly or indirectly on the last day of the taxable year would most likely be required to include their pro-rata share of our related person insurance income for the taxable year in their income. This amount would be determined as if such related person insurance income were distributed proportionally to United States persons at that date. We do not expect that we will knowingly enter into reinsurance agreements in which, in the aggregate, the direct or indirect insureds are, or are related to, owners of 20% or more of the Class A ordinary shares. We do not believe that the 20% gross insurance income threshold will be met. However, we cannot assure you that this is or will continue to be the case. Consequently, we cannot assure you that a person who is a direct or indirect United States shareholder will not be required to include amounts in its income in respect of related person insurance income in any taxable year.

If a United States shareholder is treated as disposing of shares in a foreign insurance corporation that has related person insurance income and in which United States persons own 25% or more of the voting power or value of the entity's shares, any gain from the disposition will generally be treated as a dividend to the extent of the United States shareholder's portion of the corporation's undistributed earnings and profits that were accumulated during the period that the United States shareholder owned the shares. In addition, the shareholder will be required to comply with certain reporting requirements, regardless of the amount of shares owned by the direct or indirect United States shareholder. Although not free from doubt, we believe these

rules should not apply to dispositions of Class A ordinary shares because Greenlight Capital Re is not directly engaged in the insurance business and because proposed United States Treasury regulations applicable to this situation appear to apply only in the case of shares of corporations that are directly engaged in the insurance business. We cannot assure you, however, that the IRS will interpret the proposed regulations in this manner or that the proposed regulations will not be promulgated in final form in a manner that would cause these rules to apply to dispositions of Class A ordinary shares.

***United States tax-exempt organizations who own Class A ordinary shares may recognize unrelated business taxable income.***

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

***H.R. 1, the recently passed tax reform bill, is causing us to undertake changes to the manner in which we conduct our business and could subject United States persons who own Class A ordinary shares to United States income taxation on our undistributed earnings.***

On December 22, 2017, H.R. 1, commonly referred to as “the Tax Cuts and Jobs Act,” was signed into law. H.R. 1 provides a bright-line test that a non-U.S. insurance company only will receive the benefit, for passive foreign investment company purposes, of being engaged in the active conduct of an insurance business if its applicable insurance liabilities constitute more than 25% of its total assets. For this purpose, the term “applicable insurance liabilities” does not include unearned premium reserves. Among other things, this limitation could result in the treatment of offshore insurers or reinsurers that write business on a low frequency/high severity basis, such as property catastrophe companies and financial guaranty companies, as PFICs, as significant reserves for losses are not recorded until a catastrophic event actually occurs. Accordingly, subject to any future corrections or clarifications that may be made to H.R. 1, or any regulations that may be promulgated thereunder, the Company will be treated as a PFIC for any taxable year in which it does not meet the bright-line applicable insurance liabilities requirement of H.R. 1.

The Company intends not to be treated as a passive foreign investment company and is in the process of restructuring its activities to ensure that it meets this bright-line applicable insurance liabilities test. This restructuring may create new business risks. Additionally, there is still substantial uncertainty regarding the application of the test. The Company cannot guarantee that it will successfully restructure to meet the bright-line applicable insurance liabilities test. In the event that the Company cannot meet this test, shareholders that are United States persons will be subject to United States income taxation on the Company’s undistributed earnings.

***Further changes in United States tax regulations and laws could change our status for United States persons who own Class A ordinary shares***

The IRS or Congress may issue additional regulations or legislations regarding the applicable insurance liabilities bright-line test of the PFIC rules.

We are monitoring developments with respect to both the new applicable insurance liabilities test and the IRS proposed regulations. At this time, we cannot predict whether or what, if any, additional regulations will be adopted or additional legislation will be enacted. If regulations are adopted or legislation enacted that cause us to fail to meet the requirements of the insurance company exception, or if we fail to meet the recently enacted applicable insurance liabilities test such failure could have a material adverse effect on the taxation of our shareholders who are U.S. persons. In that event we may undertake further changes to the manner in which we conduct our business, which also could have a material effect on our results of operations.

The tax laws and interpretations regarding whether an entity is engaged in a United States trade or business, is a CFC, has related party insurance income or is a PFIC are subject to change, possibly on a retroactive basis. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming from the IRS. We are not able to predict if, when or in what form such guidance will be provided and whether such guidance will have a retroactive effect.

***H.R. 1 may have a detrimental effect on the Company and its assets.***

The regulatory and tax environment globally is evolving, and changes in the regulation or taxation of the Company and its assets may materially adversely affect shareholders. H.R. 1, among other things, makes significant changes to the rules applicable to the taxation of the Company and its assets, such as changing the rules applicable to active insurance income for passive foreign investment company purposes (discussed above), changing rules applicable to controlled foreign investment company purposes, new base erosion rules, changing the general corporate tax rate to a flat 21% rate, modifying the rules regarding limitations on certain deductions, introducing a capital investment deduction in certain circumstances, placing certain limitations on the interest deduction, modifying the rules regarding the usability of certain net operating losses, and the migration from a worldwide system of taxation to a modified territorial system. At this time the ultimate outcome of the new legislation on the Company and its shareholders is uncertain and could be adverse. Shareholders should consult their own tax advisors regarding potential changes in tax laws.

***If investments held by GRIL are determined not to be integral to the reinsurance business carried on by GRIL, additional Irish tax could be imposed and our business and financial results could be materially adversely affected.***

Based on administrative practice, taxable income derived from investments made by GRIL is generally taxed in Ireland at the rate of 12.5% on the grounds that such investments either form part of the permanent capital required by regulatory authorities, or are otherwise integral to the reinsurance business carried on by GRIL. GRIL intends to operate in such a manner so that the level of investments held by GRIL does not exceed the amount that is integral to the reinsurance businesses carried on by GRIL. If, however, investment income earned by GRIL exceeds these thresholds or if the administrative practice of the Irish Revenue Commissioners changes, Irish corporation tax could apply to such investment income at a higher rate (currently 25%) instead of the general 12.5% rate, and our results of operations could be materially adversely affected.

***The impact of the initiative of the OECD to eliminate harmful tax practices is uncertain and could adversely affect our tax status in the Cayman Islands.***

The OECD has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax neutral jurisdictions and preferential tax regimes in countries around the world. While the Cayman Islands is currently on the list of jurisdictions that have substantially implemented the internationally agreed tax standard, we are not able to predict if additional requirements will be imposed, and if so, whether changes arising from such additional requirements will subject us to additional taxes.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

We currently occupy our office space in Grand Cayman, Cayman Islands under operating lease agreements which will expire on June 30, 2018, unless we renew the leases for an additional five year term. Additionally, we have an operating lease agreement for office space in Dublin, Ireland which expires in 2031, but provides us an option to terminate the lease in 2021 without any penalty. We believe that for the foreseeable future the office spaces in the Cayman Islands and Ireland will be sufficient for conducting our operations.

### ITEM 3. LEGAL PROCEEDINGS

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

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

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

#### Market Information

Our Class A ordinary shares began publicly trading on the Nasdaq Global Select Market on May 24, 2007 under the symbol "GLRE". The following table sets forth, for the periods indicated, the high and low reported sale price per share of our Class A ordinary shares on the Nasdaq Global Select Market.

	2017		2016	
	High	Low	High	Low
First Quarter	\$ 24.10	\$ 21.20	\$ 22.13	\$ 16.05
Second Quarter	\$ 22.35	\$ 19.70	\$ 22.07	\$ 18.79
Third Quarter	\$ 23.15	\$ 19.75	\$ 21.86	\$ 18.97
Fourth Quarter	\$ 23.00	\$ 19.90	\$ 24.10	\$ 19.25

#### Holders

As of January 31, 2018, the number of holders of record of our Class A ordinary shares was approximately 49, not including beneficial owners of shares registered in nominee or street name who represent approximately 97.1% of the Class A ordinary shares issued and outstanding.

#### Dividends

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

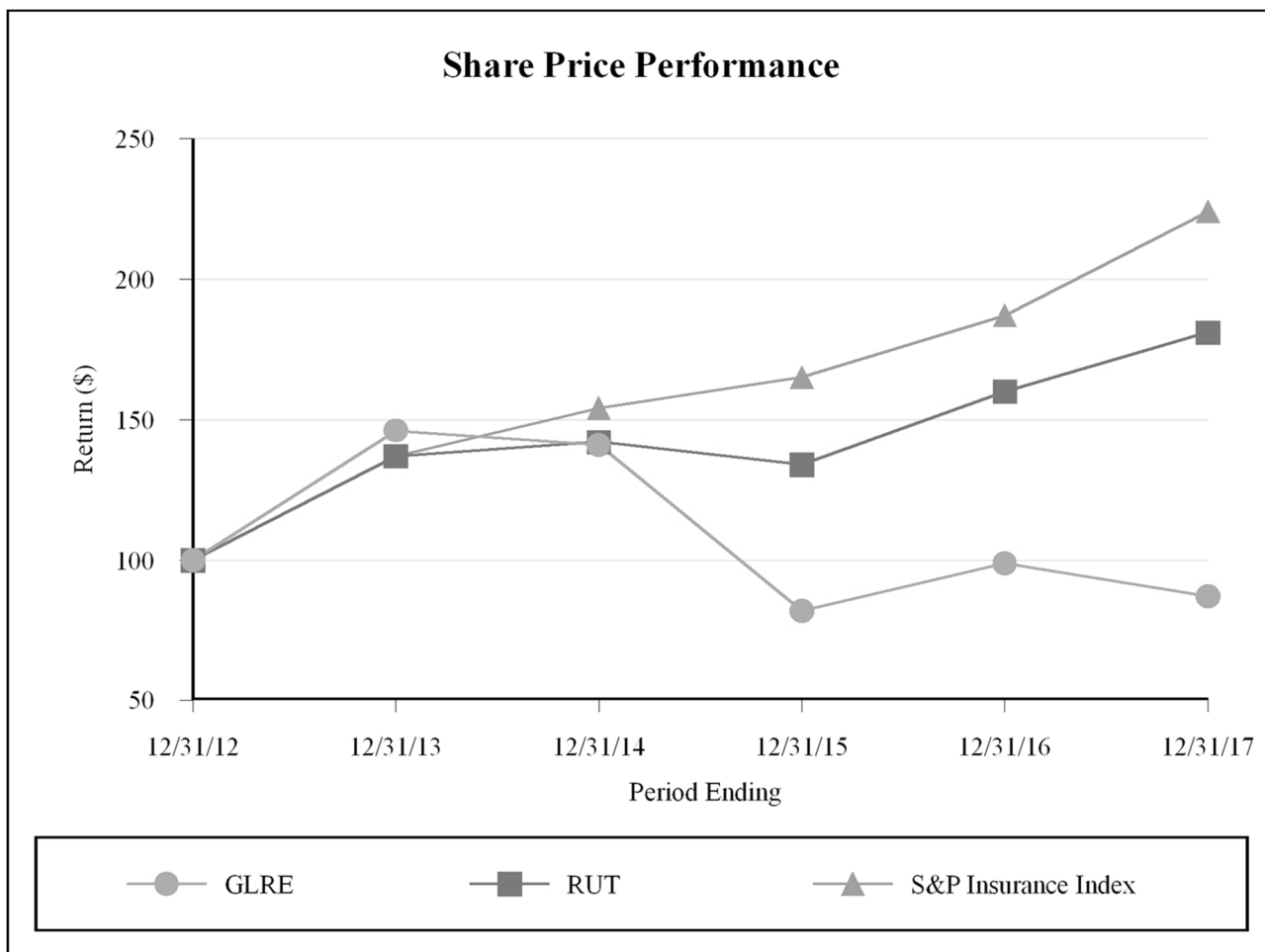
Holders of ordinary shares are entitled to receive dividends when, as and if declared by the Board of Directors in accordance with the provisions of our Articles and the Companies Law. In the event of a liquidation, dissolution or winding-up of the Company, the holders of ordinary shares are entitled to share equally and ratably in our assets, if any remain after the payment of all of our debts and liabilities and the liquidation preference of any outstanding preferred shares.

We currently do not intend to declare and pay dividends on our ordinary shares in the foreseeable future. However, if we decide to pay dividends, we cannot assure you that sufficient cash will be available to pay such dividends. In addition, a letter of credit facility prohibits us from paying dividends during an event of default as defined in the letter of credit agreement. Our future dividend policy will also depend on the requirements of any future financing agreements to which we may be a party and

other factors considered relevant by our Board of Directors, such as our results of operations and cash flows, our financial position and capital requirements, general business conditions, rating agency guidelines, legal, tax, regulatory and any contractual restrictions on the payment of dividends. Further, any future declaration and payment of dividends is discretionary and our Board of Directors may, at any time, modify or revoke our dividend policy on our ordinary shares. Finally, our ability to pay dividends also depends on the ability of our subsidiaries to pay dividends to us. Although Greenlight Capital Re is not subject to any significant legal prohibitions on the payment of dividends, Greenlight Re and GRIL are subject to regulatory constraints that affect their ability to pay dividends and include minimum net worth requirements. As of December 31, 2017, Greenlight Re and GRIL both exceeded the minimum statutory capital requirements. Any dividends we pay will be declared and paid in U.S. dollars.

**Performance Graph**

Presented below is a line graph comparing the yearly change in the cumulative total shareholder return on our Class A ordinary shares for the five year period commencing December 31, 2012 through December 31, 2017 against the total return index for the Russell 2000 Index, or RUT, and the S&P 500 Property & Casualty Insurance Index, or S&P Insurance Index, for the same period. The performance graph assumes \$100 invested on December 31, 2012 in the ordinary shares of Greenlight Capital Re, the RUT and the S&P Insurance Index. The performance graph also assumes that all dividends are reinvested.



The performance reflected in the graph above is not necessarily indicative of future performance.

This graph is not “soliciting material,” is not deemed filed with the SEC and is not to be incorporated by reference in any filing by us under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

## **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Our board of directors has adopted a share repurchase plan authorizing the Company to repurchase Class A ordinary shares. From time to time, the repurchase plan has been re-approved or modified at the election of our Board of Directors. On April 26, 2017, our Board of Directors amended the share repurchase plan to extend the duration of the repurchase plan to June 30, 2018 and reinstated the authorization for the Company to purchase up to 2.0 million Class A ordinary shares or securities convertible into Class A ordinary shares in the open market, through privately negotiated transactions or Rule 10b5-1 stock trading plans. As of December 31, 2017, 1.9 million Class A ordinary shares remained authorized for repurchase under the share repurchase plan. The Company is not required to repurchase any Class A ordinary shares and the repurchase plan may be modified, suspended or terminated at any time without prior notice. During the year ended December 31, 2017, 136,312 Class A ordinary shares were repurchased by the Company at an average price of \$20.66 per share. No shares were repurchased by the Company during the fourth quarter of the year ended December 31, 2017.

## **ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth our selected historical consolidated statement of income data for the fiscal years ended December 31, 2017, 2016, 2015, 2014 and 2013, as well as our selected historical consolidated balance sheet data as of December 31, 2017, 2016, 2015, 2014 and 2013, which are derived from our audited consolidated financial statements. The audited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and have been audited by BDO USA, LLP, an independent registered public accounting firm.

These historic results are not necessarily indicative of results for any future period. You should read the following selected financial data in conjunction with our consolidated financial statements and related notes thereto contained in “Item 8. Financial Statements and Supplementary Data” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this filing and all other information appearing elsewhere or incorporated into this filing by reference.



**Year ended December 31**

**2017                      2016                      2015                      2014                      2013**

(\$ in thousands, except per share and share amounts)

**Selected Consolidated Statement of Income Data**

Gross premiums written	\$ 692,651	\$ 536,072	\$ 502,124	\$ 324,023	\$ 535,702
Net premiums earned	626,004	513,118	408,387	354,240	547,899
Net investment income (loss)	20,231	76,183	(281,924)	122,575	218,140
Loss and loss adjustment expenses incurred, net	502,404	380,815	317,097	234,986	338,493
Acquisition costs, net	161,740	134,534	116,207	107,665	171,872
General and administrative expenses	26,356	25,808	23,434	24,500	20,958
Net income (loss)	\$ (44,952)	\$ 44,881	\$ (326,425)	\$ 109,592	\$ 225,699

**Earnings (Loss) Per Share Data <sup>(1)</sup>**

Basic	\$ (1.21)	\$ 1.20	\$ (8.90)	\$ 2.94	\$ 6.13
Diluted	(1.21)	1.20	(8.90)	2.89	6.01

**Weighted average number of ordinary shares used in the determination of earnings and loss per share**

Basic	37,002,260	37,267,145	36,670,466	37,242,687	36,838,128
Diluted	37,002,260	37,340,018	36,670,466	37,874,387	37,585,167

**Underwriting Income (Loss) and Selected Ratios**

Underwriting income (loss) *	\$ (53,628)	\$ (18,814)	\$ (41,909)	\$ (4,908)	\$ 22,311
Loss ratio <sup>(2)</sup>	80.3%	74.2%	77.6%	66.3%	61.8%
Acquisition cost ratio <sup>(3)</sup>	25.8%	26.2%	28.5%	30.4%	31.4%
Underwriting expense ratio <sup>(4)</sup>	2.5%	3.2%	4.2%	4.7%	2.8%
Combined ratio <sup>(5)</sup>	108.6%	103.6%	110.3%	101.4%	96.0%

	<b>December 31</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	(\$ in thousands, except per share and share amounts)				
<b>Selected Consolidated Balance Sheet Data</b>					
Total investments	\$ 1,362,984	\$ 1,022,537	\$ 1,064,164	\$ 1,430,978	\$ 1,393,679
Cash and cash equivalents	27,285	39,858	112,162	12,030	3,722
Restricted cash and cash equivalents	1,503,813	1,202,651	1,236,589	1,296,914	1,334,074
<b>Total assets</b>	<b>3,357,393</b>	<b>2,664,693</b>	<b>2,712,522</b>	<b>2,995,292</b>	<b>3,095,276</b>
Securities sold, not yet purchased, at fair value	912,797	859,902	882,906	1,090,731	1,111,690
Due to prime brokers and other financial institutions	672,700	319,830	396,453	211,070	314,702
Loss and loss adjustment expense reserves <sup>^</sup>	464,380	306,641	305,997	264,243	329,894
Unearned premium reserves	255,818	222,527	211,954	128,736	173,057
<b>Total liabilities</b>	<b>2,505,967</b>	<b>1,773,006</b>	<b>1,863,749</b>	<b>1,801,251</b>	<b>2,008,972</b>
<b>Total equity</b>	<b>844,257</b>	<b>885,803</b>	<b>836,509</b>	<b>1,179,384</b>	<b>1,065,417</b>
Adjusted book value* <sup>(6)</sup>	831,324	874,242	825,391	1,165,151	1,051,595
Diluted adjusted book value* <sup>(7)</sup>	\$ 845,183	\$ 876,362	\$ 836,944	\$ 1,184,779	\$ 1,067,623
<b>Ordinary shares outstanding</b>					
Basic	37,359,545	37,366,327	37,027,467	37,384,543	37,046,814
Diluted <sup>(8)</sup>	38,039,229	37,489,647	37,744,807	38,516,460	38,257,545
<b>Per Share Data</b>					
Basic adjusted book value per share* <sup>(9)</sup>	\$ 22.25	\$ 23.40	\$ 22.29	\$ 31.17	\$ 28.39
Fully diluted adjusted book value per share* <sup>(10)</sup>	22.22	23.38	22.17	30.76	27.91

- (1) Basic earnings per share are based on the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings per share includes the dilutive effect of restricted stock units (“RSU”) and additional potential common shares issuable when stock options are exercised and are determined using the treasury stock method. The Company treats its unvested restricted stock as participating securities in accordance with U.S. GAAP, which requires that unvested stock awards which contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (referred to as “participating securities”), be included in the number of shares outstanding for both basic and diluted earnings per share calculations. In the event of a net loss, all RSUs, stock options outstanding and participating securities are excluded from the calculation of both basic and diluted loss per share since their inclusion
- (2) The loss ratio is calculated by dividing net loss and loss adjustment expenses incurred by net premiums earned.
- (3) The acquisition cost ratio is calculated by dividing net acquisition costs by net premiums earned.
- (4) The underwriting expense ratio is the ratio of underwriting related expenses to net premiums earned.
- (5) The combined ratio is the sum of the loss ratio, acquisition cost ratio and underwriting expense ratio.
- (6) Adjusted book value equals total equity minus non-controlling interest in joint venture.
- (7) Diluted adjusted book value is the adjusted book value plus the proceeds from the exercise of in-the-money options issued and outstanding at year end.
- (8) Diluted number of shares outstanding is the sum of basic shares outstanding and the in-the-money options and restricted stock units issued and outstanding at year end.
- (9) Basic adjusted book value per share is calculated by dividing adjusted book value by the number of shares and share equivalents issued and outstanding at year end.
- (10) Fully diluted adjusted book value per share is calculated by dividing the diluted adjusted book value by the diluted number of shares outstanding at year end.
- \* Adjusted book value, diluted adjusted book value, basic adjusted book value per share, fully diluted adjusted book value per share and underwriting income (loss) are non-GAAP measures. For a reconciliation of the non-GAAP measures to the most comparable GAAP measures, refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations”.
- <sup>^</sup> For detailed discussion of change in loss and loss adjustment expenses, refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition” and Note 7 to the consolidated financial statements.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

The following is a discussion and analysis of our results of operations for the years ended December 31, 2017, 2016 and 2015 and financial condition as of December 31, 2017 and 2016. The following discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes, which appear elsewhere in this filing.

### **General**

We are a global specialty property and casualty reinsurer, headquartered in the Cayman Islands, with a reinsurance and investment strategy that we believe differentiates us from most of our competitors. Our goal is to build long-term shareholder value by providing risk management products and services to the insurance, reinsurance and other risk marketplaces. We focus on delivering risk solutions to clients and brokers who value our expertise, analytics and customer service offerings.

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

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

### **Outlook and Trends**

The property and casualty reinsurance industry historically has been cyclical in nature, owing to fluctuations in the supply of capital. Much of the global property and casualty reinsurance marketplace has experienced an extended period of rate pressure and reductions, and despite some positive rate movement during the January 1, 2018 renewals, this pressure continues along with increased focus on expenses at all points in the risk placement chain. Certain participants in the industry have attempted to mitigate rate pressure and rate reductions by increasing scale, but we believe that throughout the industry there is an ongoing focus on lowering internal expenses as a source of efficiency.

The industry sustained significant natural catastrophe losses in the third quarter of 2017, and in addition, suffered losses from the historically large California wildfires in the fourth quarter of 2017. We believe that losses from these events created short term capital impacts that were offset by capital injections, particularly in the property catastrophe market. As a result, any rate impact was limited although positive. This dynamic may improve if the industry experiences increasing loss estimates from these events or another capacity shock. These property catastrophe events also highlighted some of the weak pricing conditions in certain non-catastrophe lines of business, and although limited at this stage, terms and conditions did improve for renewals, particularly on loss-impacted contracts.

Compared to most of our competitors, we are small and have low overhead expenses. We believe that our expense efficiency, agility and existing relationships give us a competitive advantage and will allow us to participate in lines of business that fit within our strategy. Although there were some rate improvements in the market as mentioned above, we do not believe that the pressure to contain and reduce internal expenses will abate, particularly as various classes of business become increasingly commoditized in the future. In addition to our existing lines of business, we have begun to establish a footprint in

additional classes of business that we believe will generate favorable returns on equity over the long term, including participation where we are not the lead underwriter.

We expect that technological, analytical, product and delivery mechanism innovations in the insurance and reinsurance industries will have an increasingly significant effect on the markets in which we operate. In light of that expectation, we have established an internal effort to develop and implement product and service innovations, focusing specifically on these areas.

The composition of our reinsurance portfolio was in line with expectations for the full 2017 year. Our net premiums written during 2017 year increased by 20.9% from the same period in 2016. We will continue to monitor market conditions in order to best position ourselves to participate where an appropriate risk reward profile exists. Our underlying results and product line concentrations may vary, perhaps significantly, from one period to the next, and thus our results to date are not necessarily indicative of future portfolio shape and performance.

Our investment portfolio had a net long exposure of 33.5% as of December 31, 2017. Our goal for 2018 is to protect capital in an uncertain environment and to find investment opportunities on both our long and short portfolios that we believe will generate adequate risk adjusted returns. Despite the recent U.S. Federal Reserve interest rate increases, we believe monetary policy remains accommodative globally. Additionally, there are many global economic, investment and political uncertainties and risks that may impact our business. The recent passage of the Tax Cuts and Jobs Act in the U.S. may have repercussions on corporate profitability, personal income and lower tax revenues, which we believe will affect economic growth and inflation. Given the uncertainties, for the foreseeable future we expect to maintain comparatively lower net equity exposures and to hold a significant position in gold and other macro positions.

## Segments

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

- frequency business; and
- severity business.

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

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

## Revenues

We derive our revenues from two principal sources:

- premiums from reinsurance on property and casualty business assumed; and
- income from investments.

Premiums from reinsurance on property and casualty business assumed are directly related to the number, type and pricing of contracts we write. For financial reporting purposes, we earn premiums over the contract period in proportion to the period of risk covered.

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

In addition, we may from time to time derive other income from gains on deposit accounted contracts, fees generated from advisory services and fees relating to overrides, profit commissions and early termination of contracts.

## **Expenses**

Our expenses consist primarily of the following:

- underwriting losses and loss adjustment expenses;
- acquisition costs;
- general and administrative expenses; and
- investment-related expenses.

Loss and loss adjustment expenses are a function of the amount and type of reinsurance contracts we write and of the loss experience of the underlying coverage. As described below, loss and loss adjustment expenses include an actuarial analysis of the estimated losses, including losses incurred during the period and changes in estimates from prior periods. Depending on the nature of the contract, loss and loss adjustment expenses may be paid over a period of years.

Acquisition costs primarily consist of brokerage fees, ceding commissions, premium taxes, profit commissions, letters of credit fees, and federal excise taxes. We amortize deferred acquisition costs relating to successfully bound reinsurance contracts over the related contract term.

General and administrative expenses consist primarily of salaries and benefits and related costs, including costs associated with our incentive compensation plan, bonuses and stock compensation expenses. General and administrative expenses also include professional fees, travel and entertainment, information technology, rent and other general operating expenses. General and administrative expenses reported on our consolidated statements of income include both underwriting expenses as well as corporate expenses. Underwriting expenses include those expenses directly related to underwriting activities which are not eligible to be capitalized, as well as an allocation of other general and administrative expenses. Corporate expenses include those costs associated with operating as a publicly listed entity as well as an allocation of other general and administrative expenses.

Investment-related expenses primarily consist of interest expense on borrowings, dividend expense on short sales, management fees and performance compensation that we pay to our investment advisor. We net these expenses against investment income in our consolidated financial statements.

For stock option expenses, we calculate compensation cost using the Black-Scholes option pricing model and expense stock options over their vesting period, which varies and has historically ranged from zero to six years. For restricted stock awards and restricted stock units, we calculate compensation cost using the grant date fair value of each award and expense the stock awards over their vesting period, which is typically three years for employees and one year for directors.

## Critical Accounting Estimates

Our consolidated financial statements contain certain amounts that are inherently subjective in nature and have required management to make assumptions and best estimates to determine reported values. If certain factors, including those described in “Part I. Item IA. — Risk Factors”, cause actual events or results to differ materially from our underlying assumptions or estimates, there could be a material adverse effect on our results of operations, financial condition or liquidity. We believe that the following accounting policies affect the more significant estimates used in the preparation of our consolidated financial statements. The descriptions below are summarized and have been simplified for clarity. A more detailed description of our significant accounting policies as well as recently issued accounting standards are included in Note 2 to the consolidated financial statements.

***Premium Revenues and Risk Transfer.*** Our property and casualty reinsurance premiums are recorded as premiums written based upon contract terms and information received from ceding companies and their brokers. For excess of loss reinsurance contracts, premiums are typically stated as a percentage of the subject premiums written by the client, subject to a minimum and deposit premium. The minimum and deposit premium is typically based on an estimate of subject premiums expected to be written by the client during the contract term. The minimum and deposit premium is reported initially as premiums written and adjusted, if necessary, in subsequent periods once the actual subject premium is known.

Certain contracts allow for reinstatement premiums in the event of a loss prior to the expiry of a contract. A reinstatement premium is not due until there is a loss event and therefore, in accordance with U.S. GAAP, the Company records a reinstatement premium as written only in the event that a client incurs a loss on the contract and the contract allows for a reinstatement of coverage upon payment of an additional premium. For catastrophe contracts which contractually require the payment of a reinstatement premium upon the occurrence of a loss, the reinstatement premiums are earned over the original contract period. Reinstatement premiums that are contractually calculated on a pro-rata basis of the original contract period, are earned over the remaining coverage period. For additional premiums which are due on a contract that has no remaining coverage period, the additional premiums are earned in full when due.

For each quota share or proportional property and casualty reinsurance contract we underwrite, our client estimates gross premiums written at inception of the contract. We generally account for such premiums using our best estimates and then adjust our estimates based on actual reports provided by our client and based on our expectations of industry developments. As the contract progresses, we monitor actual premiums received in conjunction with correspondence from the client in order to refine our estimate. Variances from initial gross premiums written estimates can be greater for quota share contracts than for excess of loss contracts. All premiums on quota share contracts are earned over the risk coverage period. Unearned premiums consist of the unexpired portion of reinsurance provided.

At the inception of each of our reinsurance contracts, we receive premium estimates from the client, which, together with historical and industry data, are used to estimate what we believe will be the ultimate premium payable pursuant to each contract. We receive actual premiums written by each client as the client reports the actual results of the underlying insurance writings to us on a monthly or quarterly basis (depending on the terms of the contract). We book the actual premiums written when we receive them from our client. Each reporting period we estimate the amount of premiums that are written for stub periods that have not yet been reported to us by the client. For example, for December year-end we may have to estimate December premiums ceded under certain contracts since the client may not be required to report the actual results to us until after we have finalized our audited consolidated financial statements. Typically, premium estimates are only used for unreported stub periods, which accounts for a small percentage of our reported premiums written. We believe that estimating premiums written for these stub periods is standard reinsurance industry practice.

We are able to confirm the accuracy and completeness of premiums reported by our clients by either reviewing the client’s statutory filings and/or performing an audit of the client, as per the terms of the contract. Discrepancies between premiums ceded and reported under a contract are, in our experience, rare. To date, we have not had any material discrepancy in premiums reported by a client that required a dispute resolution process.

We account for reinsurance contracts in accordance with U.S. GAAP. Assessing whether or not a reinsurance contract meets the conditions for risk transfer requires judgment. The determination of risk transfer is critical to reporting premiums written and is based, in part, on the use of actuarial and pricing models and assumptions. If we determine that a reinsurance contract does not transfer sufficient risk, we use deposit accounting and the premiums are reported as a deposit liability. Similarly, for ceded contracts that do not transfer sufficient risk, deposit accounting is used and the contract is reported as a deposit asset. Any gains or losses on deposit accounted contracts are calculated using the interest method and recorded in the consolidated statements of income as other income or expense.

**Investments.** Our investments in debt and equity securities that are classified as “trading securities” are carried at fair value in accordance with U.S. GAAP. The fair values of the listed equities are derived based on the last reported price on the balance sheet date as reported by a recognized exchange. 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 generally derived based on the average of multiple market maker or broker quotes which are considered to be binding. Where quotes are not available, debt instruments are valued using cash flow models using assumptions and estimates that may be subjective and non-observable.

The fair values of our investments in commodities are based on the commodity’s last reported price on the balance sheet date as reported by a recognized commodities exchange. Our investments in private and unlisted equity securities and limited partnerships are all carried at fair value, based on broker or market maker quotes, or based on management’s assumptions developed from available information, using the services of our investment advisor including the most recent net asset values obtained from the managers of those underlying investments. Investments in unlisted equity funds are valued based on unadjusted net asset values reported by the funds’ managers.

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

Financial contracts which include total return swaps, credit default swaps, options, futures, currency forwards and other derivative instruments, are recorded at their fair value with any unrealized gains and losses included in net investment income in the consolidated statements of income. Fair values on total return swaps are based on the underlying security’s fair value which is obtained from closing prices on a recognized exchange (for equity or commodity swaps), or from market maker or broker quotes. Fair values for credit default swaps trading in an active market are based on market maker or broker quotes taking into account credit spreads on identical contracts. Exchange traded option contracts are recorded at fair value based on quoted prices in active markets. For over the counter (“OTC”) options and exchange traded options where a quoted price in an active market is not available, we obtain multiple market maker quotes to determine the fair values. Fair values for other derivative instruments are determined based on multiple broker or market maker quotes taking into account the liquidity and the availability of an active market for the derivative.

#### ***Loss and Loss Adjustment Expense Reserves.***

We establish loss and loss adjustment expense 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 our actuarial estimates derived from reports received from ceding companies, industry data and historical experience. We review these estimates quarterly and adjust the reserves based on our estimates of the ultimate losses across our portfolio.

Since reserves are estimates, the final settlement of losses may vary from the reserves established. Because of the uncertainties that surround our estimates of loss and loss adjustment expense reserves, we cannot be certain that ultimate loss and loss adjustment expense payments will not exceed our estimates, or be less than our estimates. If our estimated reserves are deficient, we would be required to increase loss reserves in the period in which such deficiencies are identified, which would cause a charge to our earnings and a reduction of our capital. Similarly, if our estimated reserves are excessive, we would decrease the loss reserves in the period in which the excess is identified.

Further, historical development of estimated reserves may not be representative of future loss development. This is due, among other things, to the fact that the ultimate loss incurred on any given year is subject to the development of both losses reported and IBNR prior to the financial statement date. Additionally, external factors can influence prior year loss development. Examples of such factors include, but are not limited to, jury decisions, legislative changes, changes in the medical conditions of claimants and social and economic conditions. For example, changes in specific tort law which may cause ultimate loss awards to increase or decrease could have a material effect on our loss reserve development. We are unable to accurately predict the magnitude or direction that such external factors may have on our estimated loss reserves.

Please refer to Note 7 of our consolidated financial statements for a more detailed explanation of our loss reserving methodology and the loss development tables by accident year as required under U.S. GAAP. In addition, our historical development of estimated reserves by underwriting year for the last ten years is presented below under the section “Financial Condition”.

**Bonus Accruals.** Under the Company’s bonus program, each employee’s target bonus consists of two components: a discretionary component based on a qualitative assessment of each employee’s performance and a quantitative component based on the return on deployed equity (“RODE”) for each underwriting year relating to reinsurance operations. The qualitative portion of an employee’s annual bonus is accrued at each employee’s target amount, which may differ significantly from the actual amount awarded. 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 installments between three to five years from the end of the fiscal year in which the business was underwritten. Any subsequent changes to the quantitative bonus are incorporated into the following open underwriting year. The Compensation Committee of our Board of Directors approves all quantitative bonuses prior to being paid. 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.

**Share-Based Payments.** We have established a stock incentive plan for directors, employees and consultants. U.S. GAAP requires us to recognize share-based compensation transactions using the fair value at the grant date of the award. We calculate the compensation for restricted stock awards and restricted stock units (“RSUs”) based on the price of the Company’s common shares at the grant date and recognize the expense, adjusted for estimated forfeitures, over the vesting period. We estimate the forfeiture rate for restricted stock awards and RSUs based on our historical experience and our expectations of future forfeitures. The forfeiture rate reduces the unamortized grant date fair value of unvested outstanding restricted stock awards and RSUs as well as the associated stock compensation expense. As restricted shares and RSUs are forfeited, the number of outstanding restricted shares and RSUs is reduced and the remaining unamortized grant date fair value is compared to the assumed forfeiture levels, and if deemed necessary, true-up adjustments are recorded. For the year ended December 31, 2017, we have assumed a forfeiture rate of 6% (2016: 6% and 2015: 0%) for restricted stock awards and RSUs granted, in order to reflect the anticipated forfeitures and more accurately record the share-based compensation expense.

Share purchase options are expensed over the vesting period on a graded vesting basis. Determining the fair value of share option awards at the grant date requires significant estimation and judgment. We use an option-pricing model (Black-Scholes pricing model) to assist in the calculation of fair value. The estimate of expected volatility is based on the daily historical trading data of our Class A ordinary shares from the date that these shares commenced trading (May 24, 2007) to the grant date.

If actual results differ significantly from these estimates and assumptions, particularly in relation to our estimation of volatility which requires significant judgment, share-based compensation expense, primarily with respect to future share-based awards, could be materially impacted.



## **Key Financial Measures and Non-GAAP Measures**

In addition to the consolidated financial statements, management uses certain key financial measures, some of which are not prescribed under U.S. GAAP rules and standards (“non-GAAP financial measures”), to evaluate our financial performance and the overall growth in shareholder value. Generally, a non-GAAP financial measure, as defined in SEC Regulation G, is a numerical measure of a company’s historical or future financial performance, financial position, or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with U.S. GAAP. Management believes that these measures, which may be calculated or defined differently by other companies, provide a consistent and comparable measure of performance of its businesses to help shareholders understand performance trends and allow for a more complete understanding of the Company’s business. Non-GAAP financial measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. The key non-GAAP financial measures used in this report are:

- Basic adjusted book value per share;
- Fully diluted adjusted book value per share;
- Net underwriting income (loss).

### ***Basic Adjusted Book Value Per Share and Fully Diluted Adjusted Book Value Per Share***

We believe that long-term growth in fully diluted adjusted book value per share is the most relevant measure of our financial performance because it provides management and investors a yardstick by which to monitor the shareholder value generated. In addition, fully diluted adjusted book value per share may be useful to our investors, shareholders and other interested parties to form a basis of comparison with other companies within the property and casualty reinsurance industry.

Basic adjusted book value per share is considered a non-GAAP financial measure because it excludes from the total equity the non-controlling interest in a joint venture. Fully diluted adjusted book value per share is also considered a non-GAAP financial measure and represents basic adjusted book value per share combined with the impact from dilution of all in-the-money stock options and RSUs issued and outstanding as of any period end. We adjust the total equity by excluding the non-controlling interest in a joint venture because it does not reflect the equity attributable to our shareholders. Basic adjusted book value per share and fully diluted adjusted book value per share should not be viewed as substitutes for the comparable U.S. GAAP measures.

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
	<b>(\$ in thousands, except per share and share amounts)</b>		
<b>Numerator for basic adjusted and fully diluted adjusted book value per share:</b>			
Total equity (U.S. GAAP)	\$ 844,257	\$ 885,803	\$ 836,508
Less: Non-controlling interest in joint venture	(12,933)	(11,561)	(11,117)
Numerator for basic adjusted book value per share	831,324	874,242	825,391
Add: Proceeds from in-the-money stock options issued and outstanding	13,859	2,120	11,553
Numerator for fully diluted adjusted book value per share	<u>\$ 845,183</u>	<u>\$ 876,362</u>	<u>\$ 836,944</u>
<b>Denominator for basic adjusted and fully diluted adjusted book value per share:</b>			
Ordinary shares issued and outstanding (denominator for basic adjusted book value per share)	37,359,545	37,366,327	37,027,467
Add: In-the-money stock options and RSUs issued and outstanding	679,684	123,320	717,340
Denominator for fully diluted adjusted book value per share	<u>38,039,229</u>	<u>37,489,647</u>	<u>37,744,807</u>
Basic adjusted book value per share	\$ 22.25	\$ 23.40	\$ 22.29
Fully diluted adjusted book value per share	22.22	23.38	22.17

### ***Net Underwriting Income (Loss)***

One way that management evaluates the Company's underwriting performance is through the measurement of net underwriting income (loss). We do not use premiums written as a measure of performance. Net underwriting income (loss) is a performance measure used by management as it measures the underlying fundamentals of the Company's underwriting operations. Management believes that the use of net underwriting income (loss) enables investors and other users of the Company's financial information to analyze its performance in a manner similar to how management analyzes performance. Management also believes that this measure follows industry practice and, therefore, allows the users of financial information to compare the Company's performance with its industry peer group.

Net underwriting income (loss) is considered a non-GAAP financial measure because it excludes items used in the calculation of net income before taxes under U.S. GAAP. The measure includes underwriting expenses which are directly related to underwriting activities as well as an allocation of other general and administrative expenses. Net underwriting income (loss) is calculated as net premiums earned, less net loss and loss adjustment expenses incurred, less acquisition costs and less underwriting expenses. The measure excludes, on a recurring basis: (1) net investment income; (2) any foreign exchange gains or losses; (3) corporate general and administrative expenses; (4) other income (expense) not related to underwriting, and (5) income taxes and income attributable to non-controlling interest. We exclude net investment income and foreign exchange gains or losses as we believe these are influenced by market conditions and other factors not related to underwriting decisions. We exclude corporate general and administrative expenses because these expenses are generally fixed and not incremental to or directly related to our underwriting operations. We believe all of these amounts are largely independent of our underwriting process and including them distorts the analysis of trends in our underwriting operations. Net underwriting income (loss) should not be viewed as a substitute for U.S. GAAP net income.

The reconciliations of net underwriting income (loss) to income (loss) before income taxes (the most directly comparable U.S. GAAP financial measure) on a consolidated basis is shown below:

	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(\$ in thousands)</b>		
Income (loss) before income tax	\$ (44,825)	\$ 47,209	\$ (333,688)
Add (subtract):			
Investment (income) loss	(20,231)	(76,183)	281,924
Other (income) expense	210	935	3,413
Corporate expenses	11,218	9,225	8,782
Amortization of ILW <sup>(1)</sup>	—	—	(2,340)
Net underwriting income (loss)	<u>\$ (53,628)</u>	<u>\$ (18,814)</u>	<u>\$ (41,909)</u>

<sup>(1)</sup> For the year ended December 31, 2015, amortization of an ILW, treated as a weather derivative swap under U.S. GAAP, was also included in underwriting income (loss). There was no amortization of ILWs for the years ended December 31, 2017 and 2016.

## Results of Operations

### *Years ended December 31, 2017, 2016 and 2015*

Our primary financial goal is to increase the long-term value in fully diluted adjusted book value per share. For the year ended December 31, 2017, the fully diluted adjusted book value per share decreased by \$1.16 per share, or 5.0%, to \$22.22 per share from \$23.38 per share at December 31, 2016. For the year ended December 31, 2017, the basic adjusted book value per share decreased by \$1.15 per share, or 4.9%, to \$22.25 per share from \$23.40 per share at December 31, 2016.

For the year ended December 31, 2016, the fully diluted adjusted book value per share increased by \$1.21 per share, or 5.5%, to \$23.38 per share from \$22.17 per share at December 31, 2015. For the year ended December 31, 2016, the basic adjusted book value per share increased by \$1.11 per share, or 5.0%, to \$23.40 per share from \$22.29 per share at December 31, 2015.

For the year ended December 31, 2017, we reported a net loss of \$45.0 million, compared to net income of \$44.9 million reported for the year ended December 31, 2016. Our investment portfolio reported net income of \$20.2 million, or a return of 1.5%, for the year ended December 31, 2017, compared to net investment income of \$76.2 million, or a return of 7.2%, for the same period in 2016. The underwriting loss (including underwriting related general and administrative expenses) for the year ended December 31, 2017 was \$53.6 million, compared to an underwriting loss of \$18.8 million reported for the year ended December 31, 2016. The underwriting loss for the 2017 fiscal year included catastrophe losses from hurricanes Harvey, Irma and Maria, the Mexican earthquakes and California wildfires which accounted for \$42.9 million of the underwriting loss (net of reinstatement premiums and commissions) for the 2017 fiscal year. In addition, prior year loss reserve development accounted for \$31.5 million of the underwriting loss for the 2017 fiscal year. For the year ended December 31, 2017, our overall composite ratio (sum of losses incurred and acquisition costs, as a percentage of premiums earned) was 106.1% compared to 100.4% for the year ended December 31, 2016. Catastrophe events and prior year loss reserve development contributed 6.9% and 5.0%, respectively, to the composite ratio for the year ended December 31, 2017. Total general and administrative expenses increased for the year ended December 31, 2017 to \$26.4 million from \$25.8 million for the year ended December 31, 2016, primarily due to non-recurring corporate expenses relating to consulting and professional fees.

For the year ended December 31, 2016, we reported net income of \$44.9 million, compared to a net loss of \$326.4 million reported for the year ended December 31, 2015. Our investment portfolio reported net income of \$76.2 million, or a return of 7.2%, for the year ended December 31, 2016, compared to a net investment loss of \$281.9 million, or a loss of 20.2%, for the same period in 2015. The underwriting loss (including underwriting related general and administrative expenses) for the year

ended December 31, 2016 was \$18.8 million, compared to an underwriting loss of \$41.9 million reported for the year ended December 31, 2015. The underwriting loss for the 2016 fiscal year was primarily driven by \$19.0 million loss from the novation of legacy construction defect liabilities. For the year ended December 31, 2016, our overall composite ratio (sum of losses incurred and acquisition costs, as a percentage of premiums earned) was 100.4% compared to 106.1% for the year ended December 31, 2015. Total general and administrative expenses increased for the year ended December 31, 2016 to \$25.8 million from \$23.4 million for the year ended December 31, 2015, primarily as a result of higher personnel expenses including severance costs and, to a lesser degree, higher information technology related expenses. The increase in general and administrative expenses was partially offset by a decrease in professional fees due to non-recurring professional fees incurred during the comparative year ended December 31, 2015.

### ***Gross Premiums Written***

Details of gross premiums written are provided in the following table:

	<b>Year ended December 31</b>					
	<b>2017</b>		<b>2016</b>		<b>2015</b>	
	<b>(\$ in thousands)</b>					
Frequency	\$ 644,903	93.1%	\$ 494,292	92.2%	\$ 464,376	92.5%
Severity	47,748	6.9	41,780	7.8	37,748	7.5
Total	<u>\$ 692,651</u>	<u>100.0%</u>	<u>\$ 536,072</u>	<u>100.0%</u>	<u>\$ 502,124</u>	<u>100.0%</u>

As a result of our underwriting philosophy, our reported quarterly premiums written may be volatile. Additionally, the composition of premiums written between frequency and severity business may vary from period to period depending on the specific market opportunities that we pursue.

Year ended December 31, 2017

For the year ended December 31, 2017, our gross premiums written increased by \$156.6 million, or 29.2%, compared to the same period in 2016. For the year ended December 31, 2017, our frequency gross premiums written increased by \$150.6 million, or 30.5%, compared to the same period in 2016. The notable changes in frequency gross premiums for the year ended December 31, 2017 were as follows:

<b>Frequency Gross Premiums Written</b>		
<b>Year ended December 31, 2017</b>		
<b>Increase (decrease) (\$ in millions)</b>	<b>Line of business</b>	<b>Explanation</b>
\$94.2	Motor liability and motor physical damage	Increase was primarily due to growth in the volume of underlying policies on existing private passenger motor contracts, and to a lesser extent, due to new private passenger contracts entered during 2017 and late 2016.
\$22.3	Casualty - Workers' Compensation	Increase primarily due to new contracts written during 2017.
\$17.7	Specialty - Health	Increase was primarily due to growth in the volume of underlying policies on existing employer medical stop-loss contracts, and to a lesser extent, due to new employer medical stop-loss contracts entered during 2017.
\$8.8	Casualty - Professional	The comparative period's gross premiums written included reversal of premiums relating to a solicitors' professional indemnity contract that was terminated in 2016. Excluding this contract, the professional line gross premiums written increased by \$3.7 million primarily due to growth in the volume of underlying policies on an existing casualty contract.
\$5.5	Casualty - General Liability	Increase was primarily due to growth in the volume of underlying policies on an existing multi-line casualty contract.
\$(5.4)	Property - Personal	Decrease was primarily due to the prior year included in-force unearned premiums assumed on a new homeowners' property contract entered into during December 2016. During 2017 the contract was commuted and as such there were no similar unearned premiums assumed.

For the year ended December 31, 2017, severity premiums written increased by \$6.0 million, or 14.3%, compared to the same period in 2016. The notable changes in severity gross premiums for the year ended December 31, 2017 were as follows:

<b>Severity Gross Premiums Written</b>		
<b>Year ended December 31, 2017</b>		
<b>Increase (decrease) (\$ in millions)</b>	<b>Line of business</b>	<b>Explanation</b>
\$9.3	Property	Increase was primarily due to new excess of loss catastrophe contracts written during the period as well as reinstatement premiums recorded during the period resulting from natural catastrophe losses on excess of loss and quota share catastrophe contracts.
\$4.6	Specialty	Increase was primarily due to a new transactional liability contract bound during the fourth quarter of 2016, resulting in full year's premiums being recorded during 2017. Increase was partially offset by a decrease in premiums resulting from the non-renewal of an excess of loss contract during 2017.
\$(8.0)	Casualty	Decrease due to a general liability severity contract that expired during 2017 and was not renewed.

Year ended December 31, 2016

For the year ended December 31, 2016 our gross premiums written increased by \$33.9 million, or 6.8%, compared to the same period in 2015. For the year ended December 31, 2016, our frequency gross premiums written increased by \$29.9 million, or 6.4%, compared to the same period in 2015. The notable changes in frequency gross premiums for the year ended December 31, 2016 were as follows:

<b>Frequency Gross Premiums Written</b>		
<b>Year ended December 31, 2016</b>		
<b>Increase (decrease) (\$ in millions)</b>	<b>Line of business</b>	<b>Explanation</b>
\$28.3	Motor liability and motor physical damage	Increase primarily due to growth in the volume of underlying policies on existing private passenger motor contracts.
\$27.3	Specialty - Financial	Increase primarily due to in-force unearned premiums assumed at the inception of mortgage insurance contracts bound during 2016. There were no mortgage insurance contracts bound during the comparative period in 2015.
\$12.8	Casualty - Workers' Compensation	Increase primarily due to new contracts written during 2016 and late 2015.
\$(27.7)	Casualty - Professional	Decrease partially due to lawyers' indemnity contracts that were either terminated during the period or not renewed, and partially due to a casualty professional liability contract renewed at a smaller share than the expiring contract written during 2015.
\$(7.8)	Property - Personal	Decrease primarily as a net result of the expiring Florida homeowners' property quota share contracts that we terminated on a cut-off basis, and the unearned portion of the premiums written which was reversed and returned to the ceding insurer. The decrease in personal lines premiums written was partially offset by a new homeowners' property contract entered into during 2016 that included in-force unearned premiums assumed at the inception of the contract.

For the year ended December 31, 2016, severity premiums written increased by \$4.0 million, or 10.7%, compared to the same period in 2015. The notable changes in severity gross premiums for the year ended December 31, 2016 were as follows:

<b>Severity Gross Premiums Written</b>		
<b>Year ended December 31, 2016</b>		
<b>Increase (decrease) (\$ in millions)</b>	<b>Line of business</b>	<b>Explanation</b>
\$3.7	Casualty	New quota share severity contract written during the second half of 2015 and renewed in 2016, resulting in a full year's premiums being recorded during 2016 compared to only half year's premiums recorded during 2015.
\$2.5	Property	The comparative 2015 severity premiums written included negative premiums of \$2.5 million relating to premiums returned on an excess of loss catastrophe contract. No such return premiums were booked during 2016.
\$1.4	Multi-line	The increase due to additional premiums received on a prior excess of loss contract that reported a full limit loss. During 2016, the ceding insurer for this contract reported its final settlement of losses arising from the U.S. sub-prime crisis, which resulted in the loss exceeding the insurer's retention and triggering additional premiums as per the contract.
\$(3.3)	Multi-line	Decrease in premiums relating to catastrophe excess of loss contracts not renewed during 2016.

### ***Premiums Ceded***

For the years ended December 31, 2017, 2016 and 2015, retrocessional premiums ceded were \$56.6 million, \$10.0 million and \$9.0 million, respectively. For the year ended December 31, 2017, the increase in ceded premiums compared to the same period in 2016 was primarily due to quota share retrocession contracts entered into during 2017 in order to cede a portion of our private passenger automobile exposure. In general, we seek to use retrocessional coverage to manage our net portfolio exposure, to leverage areas of expertise and to improve our strategic position in meeting the needs of clients and brokers.

For the year ended December 31, 2016, the increase in ceded premiums compared to the same period in 2015 was partially due to an excess of loss retrocession contract purchased during 2016 to reduce our exposure to catastrophe events.

### ***Net Premiums Written***

Details of net premiums written are provided in the following table:

	Year ended December 31					
	2017		2016		2015	
	(\$ in thousands)					
Frequency	\$ 590,203	92.8%	\$ 485,777	92.3%	\$ 455,375	92.3%
Severity	45,861	7.2	40,280	7.7	37,748	7.7
Total	<u>\$ 636,064</u>	<u>100.0%</u>	<u>\$ 526,057</u>	<u>100.0%</u>	<u>\$ 493,123</u>	<u>100.0%</u>

The movement in net premiums written is the net result of the increases or decreases in gross premiums written and premiums ceded as explained in the preceding paragraphs.

### ***Net Premiums Earned***

Net premiums earned reflect the pro-rata inclusion into income of net premiums written over the risk period of the reinsurance contracts. Details of net premiums earned are provided in the following table:

	Year ended December 31					
	2017		2016		2015	
	(\$ in thousands)					
Frequency	\$ 580,495	92.7%	\$ 473,702	92.3%	\$ 380,565	93.2%
Severity	45,509	7.3	39,416	7.7	27,822	6.8
Total	<u>\$ 626,004</u>	<u>100.0%</u>	<u>\$ 513,118</u>	<u>100.0%</u>	<u>\$ 408,387</u>	<u>100.0%</u>

Premiums relating to quota share contracts and excess of loss contracts are earned over the contract period in proportion to the period of protection. Similarly, incoming unearned premiums are earned in proportion to the remaining period of protection.

Year ended December 31, 2017

For the year ended December 31, 2017, the frequency net premiums earned increased by \$106.8 million, or 22.5%, compared to the same period in 2016. The notable increases in frequency net premiums earned were as follows:

<b>Frequency Premiums Earned</b>		
<b>Year ended December 31, 2017</b>		
<b>Increase (decrease) (\$ in millions)</b>	<b>Line of business</b>	<b>Explanation</b>
\$55.2	Motor liability and motor physical damage	Increase was primarily due to growth in the volume of underlying policies on existing private passenger motor contracts, and to a lesser extent, due to new private passenger motor contracts entered during 2017 and the second half of 2016. The increase is net of the ceded premiums related to private passenger motor contracts.
\$16.4	Property - Personal	Increase was primarily attributable to the new homeowners' property contract entered during the fourth quarter of 2016. The increase was partially offset by decreases relating to Florida homeowners' property quota share contracts that were terminated during 2016.
\$18.5	Casualty - Workers' Compensation	Increase was primarily due to new workers' compensation contracts entered during 2017 and the second half of 2016 and to a lesser extent, due to growth in the volume of underlying policies on existing contracts renewed during the year.
\$7.3	Specialty - Financial	Increase was primarily due to a new financial lines quota share contract and mortgage insurance contract bound during the past twelve months. The increase was partially offset by a surety contract that was not renewed during 2017.
\$7.5	Specialty - Health	Increase was primarily due to growth in the volume of underlying policies on existing employer medical stop-loss contracts, and to a lesser extent, due to new employer medical stop-loss contracts entered during 2017.

For the year ended December 31, 2017, the severity net premiums earned increased by \$6.1 million, or 15.5%, compared to the same period in 2016. The notable increases and decreases in severity premiums earned were as follows:

<b>Severity Premiums Earned</b>		
<b>Year ended December 31, 2017</b>		
<b>Increase (decrease) (\$ in millions)</b>	<b>Line of business</b>	<b>Explanation</b>
\$7.4	Property	Increase was primarily due to reinstatement premiums recorded during the period resulting from natural catastrophe losses on excess of loss and quota share catastrophe contracts.
\$2.5	Specialty	Increase was due to a new transactional liability contract bound during the fourth quarter of 2016. Increase was partially offset by a decrease in marine and other specialty lines relating to an excess of loss contract not renewed during 2017.
\$(3.8)	Casualty	Decrease was primarily due to a severity general liability contract not renewed during the period. In addition, prior year casualty earned premiums were higher due to additional premiums triggered by a full limit loss on a casualty contract.



Year ended December 31, 2016

For the year ended December 31, 2016, the frequency premiums earned increased by \$93.1 million, or 24.5%, compared to the same period in 2015. The notable increases and decreases in frequency premiums earned were as follows:

<b>Frequency Premiums Earned</b>		
<b>Year ended December 31, 2016</b>		
<b>Increase (decrease) (\$ in millions)</b>	<b>Line of business</b>	<b>Explanation</b>
\$55.7	Motor liability and motor physical damage	Increase primarily due to growth in the volume of underlying policies on existing private passenger motor contracts.
\$8.9	Specialty - Financial	Increase primarily due to in-force unearned premiums assumed at the inception of mortgage insurance contracts bound during 2016. There were no mortgage insurance contracts bound during the comparative period in 2015.
\$15.6	Casualty - Workers' Compensation	Increase primarily due to new contracts bound and to a lesser extent due to an increase in the underlying premiums on existing contracts.
\$12.7	Casualty - General Liability	Increase in general liability premiums earned primarily due to an increase in the underlying premiums on a casualty contract and, to a lesser extent, due to new contracts written during the second half of 2015 and renewed in 2016.
\$(16.0)	Property - Personal	Decrease primarily as a net result of the expiring Florida homeowners' property quota share contracts that we terminated on a cut-off basis during 2016. The decrease in personal lines premiums written was partially offset by new homeowners' property quota share contracts entered into during fourth quarter of 2016.
\$16.2	Other	Other insignificant increases related to commercial property, professional liability and specialty health lines.

For the year ended December 31, 2016, the severity net premiums earned increased by \$11.6 million, or 41.7% compared to the same period in 2015. The notable increases and decreases in severity premiums earned were as follows:

<b>Severity Premiums Earned</b>		
<b>Year ended December 31, 2016</b>		
<b>Increase (decrease) (\$ in millions)</b>	<b>Line of business</b>	<b>Explanation</b>
\$5.3	Casualty	Increase related to a new quota share severity contract written during the second half of 2015 and renewed in 2016.
\$4.3	Property	Increase due to premiums earned on existing severity quota share contracts written during 2015 and renewed in 2016.
\$2.5	Property	The comparative 2015 severity premiums written included negative premiums of \$2.5 million relating to premiums returned on an excess of loss catastrophe contract. No comparable return premiums were booked during 2016.
\$1.4	Multi-line	Increase due to additional premiums received on a prior excess of loss contract that reported a full limit loss. During 2016, the ceding insurer for this contract reported its final settlement of losses arising from the U.S. sub-prime crisis, which resulted in the loss exceeding the insurer's retention and triggering additional premiums as per the contract.
\$(3.3)	Multi-line	Decrease in premiums relating to catastrophe excess of loss contracts not renewed during 2016.

### ***Loss and Loss Adjustment Expenses Incurred, Net***

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

	Year ended December 31					
	2017		2016		2015	
	(\$ in thousands)					
Frequency	\$ 437,847	87.2%	\$ 358,988	94.3%	\$ 314,459	99.2%
Severity	64,557	12.8	21,827	5.7	2,638	0.8
Total	\$ 502,404	100.0%	\$ 380,815	100.0%	\$ 317,097	100.0%

We establish reserves based on estimates of the ultimate cost of all losses, including losses incurred but not reported. These estimated ultimate reserves are based on actuarial reserving work performed on historical experience data received from ceding companies, industry data and, where applicable, other external data sources or reviews performed. We review these estimates on a quarterly basis and adjust them as we deem appropriate to reflect our most up-to-date view.

#### Year ended December 31, 2017

For the year ended December 31, 2017, the total net losses incurred on frequency contracts increased by \$78.9 million, or 22.0%, compared to the same period in 2016. The losses incurred on frequency contracts for the year ended December 31, 2017 included \$8.5 million of catastrophe losses incurred on quota share contracts due to hurricanes Harvey, Irma and Maria and the Mexican earthquakes. Some of our frequency contracts have limited exposure to losses from natural catastrophe events. In addition, the increase in losses incurred on frequency contracts was partially related to adverse loss development of \$30.1 million on prior year frequency contracts as well as an increase in premiums earned during the year ended December 31, 2017. During the latter half of 2017 we strengthened reserves across numerous lines of business, including but not limited to: professional liability, medical stop loss, multi-line casualty, and multi-line specialty. The strengthening of reserves in these classes was driven by our view of the industry wide loss ratio performance of these segments and by additional reporting from clients.

For the year ended December 31, 2017, the losses incurred on severity contracts increased by \$42.7 million, or 195.8%, compared to the same period in 2016. The increase in severity losses incurred was primarily due to \$41.9 million of catastrophe losses incurred during 2017 relating to hurricanes Harvey, Irma and Maria, the Mexican earthquakes and California wildfires, compared to \$4.4 million of catastrophe loss incurred during the comparative period in 2016 relating to Canadian wildfires and Hurricane Matthew. In addition, the current year losses incurred included an increase of \$6.1 million in reserves due to adverse loss development on prior year multi-line severity contracts.

Losses incurred as a percentage of premiums earned (referred to as the loss ratio) fluctuates based on the mix of business, and any favorable or adverse loss development in our portfolio. The below table summarizes the loss ratios for the years ended December 31, 2017, 2016 and 2015:

	Year ended December 31		
	2017	2016	2015
Frequency	75.4%	75.8%	82.6%
Severity	141.9%	55.4%	9.5%
Total	80.3%	74.2%	77.6%

We expect our severity loss ratio to vary, sometimes significantly, based on catastrophe events and changes in the mix of business between catastrophe and non-catastrophe business and quota share and excess of loss contracts.

The noteworthy changes in frequency and severity loss ratios for the year ended December 31, 2017 were primarily due to the following:

**Notable Frequency Loss Ratio Changes**

**Year ended December 31, 2017**

**Explanation**

- Losses from natural catastrophe events including hurricanes Harvey, Irma and Maria and the Mexican earthquakes contributed 1.5 loss ratio points to the frequency loss ratio for the year ended December 31, 2017. Excluding the losses relating to these events, the frequency loss ratio was 73.9%.
- The 2017 loss ratio included adverse loss development on a surety contract arising from two large claims, as well as adverse loss development on select employers' medical stop-loss contracts and professional liability contracts, including solicitors' indemnity contracts.
- During the latter half of 2017 we strengthened reserves across numerous lines of business, including but not limited to: professional liability, medical stop loss, multi-line casualty, and multi-line specialty. The reserve strengthening was driven by our view of industry wide loss ratio performance of these segments and by additional reporting from clients.
- The frequency loss ratio for the comparative period in 2016 included \$19.0 million of losses relating to a loss portfolio transfer of construction defect liabilities.

**Notable Severity Loss Ratio Changes**

**Year ended December 31, 2017**

**Explanation**

- Losses from natural catastrophe events including hurricanes Harvey, Irma and Maria, the Mexican earthquakes and California wildfires contributed 92.1 loss ratio points to the severity loss ratio for the year ended December 31, 2017. Excluding the losses relating to these events, the severity loss ratio was 49.8%.
- Adverse loss development on a prior year multi-line whole account quota share contract.
- The severity loss ratio for the comparative period in 2016 included a large loss on an excess of loss contract relating to the U.S. sub-prime crisis, as well as losses from Canadian wildfires and Hurricane Matthew.

Year ended December 31, 2016

For the year ended December 31, 2016, the total net losses incurred on frequency contracts increased by \$44.5 million, or 14.2%, compared to the same period in 2015. The losses incurred for 2016 include \$19.0 million relating to legacy construction defect liabilities that were novated during 2016. By comparison, the losses incurred for 2015 included \$51.6 million of losses related to these legacy construction defect liabilities. Effective June 30, 2016, we entered into a retrospective reinsurance agreement to transfer \$52.5 million of construction defect liabilities to a third party for a consideration of \$71.5 million. Effective September 30, 2016, the loss portfolio transfer was commuted and the contracts containing the construction defect liabilities were novated to a third party reinsurer for no further consideration.

The remainder of the increase in incurred losses on frequency contracts related primarily to the higher earned premiums recorded for the year ended December 31, 2016, compared to the same period in 2015.

For the year ended December 31, 2016, the losses incurred on severity contracts increased by \$19.2 million, or 727.4%, compared to the same period in 2015. The severity losses incurred included \$4.4 million of loss reserves relating to the 2016 Canadian wildfires and Hurricane Matthew. These loss reserves were estimated based on information received from cedents and are subject to change in future periods. In addition, the severity losses for the year ended December 31, 2016 included \$4.5 million of losses paid on an excess of loss contract relating to the U.S. sub-prime crisis. The economic loss on this contract was partially offset by \$1.4 million of additional premiums received under the terms of the contract which was recorded as earned premium during the period. Additionally, the losses incurred for the comparative year ended December 31, 2015 included the reversal of \$5.1 million of loss reserves relating to favorable loss development on an excess of loss contract.

The changes in frequency and severity loss ratios for the year ended December 31, 2016 were primarily due to the following:

**Notable Frequency Loss Ratio Changes**

<b>December 31, 2016</b>	
<b>Explanation</b>	
•	A decrease in the loss ratio as a result of lower adverse loss development on legacy construction defect liabilities. Excluding the construction defect contracts, the overall loss ratios for our frequency business for the years ended December 31, 2016 and 2015, were 71.5% and 69.1%, respectively.
•	An increase in the loss ratio due to adverse loss development on Florida homeowners' insurance contracts as a result of deterioration of sinkhole claims and an increase in the practice of assignment of benefits by public adjusters and attorneys in Florida.
•	An increase in the loss ratio relating to a private passenger motor contract that experienced an increase in loss adjustment expenses on claims.
•	A decrease in the loss ratio due to a higher proportion of professional liability premiums earned during 2016 from casualty contracts which have a lower loss ratio than other professional liability contracts such as solicitors' indemnity.
•	The comparative 2015 loss ratio included favorable loss development on employers' medical stop-loss contracts. The 2016 loss ratio had no similar favorable loss development on these contracts.

**Notable Severity Loss Ratio Changes**

<b>December 31, 2016</b>	
<b>Explanation</b>	
•	An increase in the loss ratio due to \$4.4 million of reserves relating to 2016 natural catastrophe events - Canadian wildfires and Hurricane Matthew.
•	An increase in the loss ratio due to a prior year excess of loss contract that reported a full limit loss arising from the U.S. sub-prime crisis.
•	An increase in the loss ratio because the comparative year ended December 31, 2015 included the release of \$5.1 million of loss reserves relating to favorable loss development on an excess of loss contract.

Losses incurred can be further broken down into losses paid and changes in loss and loss adjustment expense reserves as follows:

	<b>Year ended December 31</b>								
	<b>2017</b>			<b>2016</b>			<b>2015</b>		
	<b>Gross</b>	<b>Ceded</b>	<b>Net</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net</b>
<b>(\$ in thousands)</b>									
Losses paid (recovered)	\$ 379,527	\$ (5,046)	\$ 374,481	\$ 374,270	\$ (1,600)	\$ 372,670	\$ 274,713	\$ (9,851)	\$ 264,862
Change in loss and loss adjustment expense reserves	154,674	(26,751)	127,923	7,484	661	8,145	44,080	8,155	52,235
<b>Total</b>	<b>\$ 534,201</b>	<b>\$ (31,797)</b>	<b>\$ 502,404</b>	<b>\$ 381,754</b>	<b>\$ (939)</b>	<b>\$ 380,815</b>	<b>\$ 318,793</b>	<b>\$ (1,696)</b>	<b>\$ 317,097</b>

For the year ended December 31, 2017, the change in loss reserves included losses relating to catastrophe events during 2017. In addition, for the year ended December 31, 2017, our net loss reserves on prior period contracts increased by \$36.2 million primarily related to adverse loss development across a number of contracts. After adjustments for sliding scale ceding

commissions, profit commissions and additional premiums, the impact on net underwriting income for the year ended December 31, 2017 was \$31.5 million.

For the year ended December 31, 2016, the change in loss reserves included losses novated relating to construction defect liabilities. For the year ended December 31, 2016, our net loss reserves on prior period contracts increased by \$35.5 million primarily related to adverse loss development across a number of contracts. After adjustments for sliding scale ceding commissions, profit commissions and additional premiums, the impact on net underwriting income for the year ended was \$28.8 million.

For further details on prior period loss developments, please refer to Note 7 “Loss and loss adjustment expense reserves” of the consolidated financial statements.

### *Acquisition Costs, Net*

Acquisition costs represent the amortization of commission and brokerage expenses incurred on contracts written as well as profit commissions and other underwriting expenses which are expensed when incurred. Deferred acquisition costs are limited to the amount of commission and brokerage expenses that are expected to be recovered from future earned premiums and anticipated investment income. Details of acquisition costs are provided in the following table.

	Year ended December 31					
	2017		2016		2015	
	(\$ in thousands)					
Frequency	\$ 157,284	97.2%	\$ 125,388	93.2%	\$ 106,411	91.6%
Severity	4,456	2.8	9,146	6.8	9,796	8.4
Total	\$ 161,740	100.0%	\$ 134,534	100.0%	\$ 116,207	100.0%

Acquisition costs as a percentage of net premiums earned (referred to as acquisition cost ratio) are generally higher for our frequency business than for our severity business, but fluctuate based on the mix of business. The acquisition cost ratios for the years ended December 31, 2017, 2016 and 2015, were as follows:

	Year ended December 31		
	2017	2016	2015
Frequency	27.1%	26.5%	28.0%
Severity	9.8%	23.2%	35.2%
Total	25.8%	26.2%	28.5%

### Year ended December 31 2017

The changes in the frequency and severity acquisition cost ratios for the year ended December 31, 2017, compared to the same period in 2016, were primarily due to the following:

### **Notable Frequency Acquisition Cost Ratio Changes**

Year ended December 31, 2017	
Line of business	Explanation
Financial	An increase in the acquisition cost ratio as a result of ceding commission rates on mortgage insurance business being higher than for other financial contracts in force during the comparative 2016 period.
Motor	An increase in the acquisition cost ratio due to higher ceding commission rates on recent private passenger motor contracts.
Casualty	An increase in the acquisition cost ratio due to higher ceding commission rates on casualty contracts renewed during 2017.
Property - Personal	A decrease in the acquisition cost ratio due to lower ceding commission rates on recent homeowners' insurance contracts, compared to the Florida homeowners' contracts that were terminated during 2016.

**Notable Severity Acquisition Cost Ratio Changes**

**Year ended December 31, 2017**

<b>Line of business</b>	<b>Explanation</b>
Multi-line	The profit commission on a multi-line contract was reversed due to an increase in losses incurred during the year. The reversal of profit commission resulted in a lower severity acquisition cost ratio for the year ended December 31, 2017.
Property	The acquisition cost ratio decreased due to reinstatement premiums earned on catastrophe contracts. The acquisition costs on the reinstatement premiums were lower than on the original premiums.

Year ended December 31 2016

The changes in the frequency and severity acquisition cost ratios for the year ended December 31, 2016, compared to the same period in 2015, were primarily due to the following:

**Notable Frequency Acquisition Cost Ratio Changes**

**December 31, 2016**

<b>Line of business</b>	<b>Explanation</b>
Motor - Property and Liability	A decrease in the sliding scale ceding commissions on our private passenger motor contracts which experienced adverse loss development during 2016.
Professional	An increase in the acquisition cost ratio due to a shift in the business mix of professional liability line from predominantly solicitors' indemnity contracts with lower acquisition cost ratios to casualty professional liability contracts, which have higher acquisition cost ratios.
Other	A decrease in the acquisition cost ratio due to a change in the mix of business written. The Florida homeowners' contracts terminated during 2016 had a relatively high acquisition cost ratio compared to the motor business that was written, which represented a higher proportion of the earned premiums in total.

**Notable Severity Acquisition Cost Ratio Changes**

**December 31, 2016**

<b>Line of business</b>	<b>Explanation</b>
Property - Commercial	A decrease in the acquisition cost ratio due to the 2015 comparative ratio being unusually high due to profit commission of \$3.4 million recorded on an excess of loss contract. The profit commission was triggered by the elimination of loss reserves on this contract based on updated information received from the insurer.

***General and Administrative Expenses***

Our total general and administrative expenses for the years ended December 31, 2017, 2016 and 2015, were \$26.4 million, \$25.8 million, and \$23.4 million, respectively. General and administrative expenses for the years ended December 31, 2017, 2016 and 2015 included \$4.9 million, \$4.0 million and \$4.3 million, respectively, for the expensing of the fair value of stock options, RSUs and restricted stock granted to employees and directors, net of forfeitures.

Details of general and administrative expenses are provided in the following table:

	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(\$ in thousands)</b>		
Underwriting expenses	\$ 15,138	\$ 16,583	\$ 14,652
Corporate expenses	11,218	9,225	8,782
General and administrative expenses	\$ 26,356	\$ 25,808	\$ 23,434

Underwriting expenses include those expenses directly related to underwriting activities which are not eligible to be capitalized, as well as an allocation of other general and administrative expenses. Corporate expenses include those costs associated with operating as a publicly listed entity as well as an allocation of other general and administrative expenses.

For the year ended December 31, 2017, underwriting expenses decreased primarily due to the reversal of bonus accruals driven by the deterioration of results for prior underwriting years. The increase in corporate expenses for the year ended December 31, 2017, compared to the same period in 2016, was mainly due to non-recurring consulting and professional fees.

For the year ended December 31, 2016, underwriting expenses increased primarily due to higher personnel expenses and to a lesser degree higher information and technology related expenses. The increase in corporate expenses for the year ended December 31, 2016, compared to the same period in 2015, was mainly due to severance costs accrued during 2016, partially offset by a decrease in professional fees incurred during 2015.

### *Net Investment Income (Loss)*

A summary of our net investment income (loss) is as follows:

	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(\$ in thousands)</b>		
Realized gains (losses)	\$ 87,618	\$ (113,836)	\$ 22,227
Change in unrealized gains and losses	(41,444)	209,993	(265,401)
Investment related foreign exchange gains (losses)	(7,653)	2,988	(3,725)
Interest and dividend income, net of withholding taxes	25,510	23,915	15,313
Interest, dividend and other expenses	(23,937)	(22,334)	(31,092)
Investment advisor compensation	(19,863)	(24,543)	(19,246)
Net investment income (loss)	<u>\$ 20,231</u>	<u>\$ 76,183</u>	<u>\$ (281,924)</u>

Investment returns relating to our investment portfolio managed by DME Advisors are calculated monthly and compounded to calculate the quarterly and annual returns. The resulting actual investment income (loss) may vary depending on cash flows into and out of the investment account.

For the year ended December 31, 2017, investment income, net of fees and expenses, resulted in a gain of 1.5% on our investments managed by DME Advisors, compared to a gain of 7.2% and a loss of (20.2)% for the years ended December 31, 2016 and 2015, respectively. The investment gain for the year ended December 31, 2017 was primarily driven by our long portfolio, which reported an investment gain of 19.5%. The short portfolio reported a loss of 15.1% for the year ended December 31, 2017. Additionally, macro positions reported a loss of 1.0% relating to losses from currency and oil derivatives, partially offset by gains in gold.

The most significant contributors to the investment gains for the year ended December 31, 2017 were long positions in AerCap (AER), Apple (AAPL), Chemours (CC), General Motors (GM), Uniper (Germany: UN01) and gold. The most significant detractors for the year ended December 31, 2017 were short positions in Caterpillar (CAT), Netflix (NFLX), Tesla (TSLA) and a group of perceived overpriced momentum driven positions which we refer to, collectively, as the “bubble basket” and long position in Rite Aid (RAD).

For the year ended December 31, 2016, the investment gains were primarily driven by long positions in CONSOL Energy (CNX), Chemours (CC), Time Warner (TWX), General Motors (GM), Michael Kors (KORS) and Apple (AAPL), and short positions in Athenahealth (ATHN) and the bubble basket. The most significant detractors for the year ended December 31,

2016 were short positions in certain oil fracking companies, as well as Amazon (AMZN), Caterpillar (CAT) and Martin Marietta Materials (MLM).

For the year ended December 31, 2017, included in “investment advisor compensation” was \$17.8 million (2016: \$16.3 million, 2015: \$19.2 million) relating to management fees paid to DME Advisors. For the year ended December 31, 2017, \$2.1 million of performance compensation was recorded on investment returns for this period (2016: \$8.2 million, 2015: \$0.0 million). Due to the investment loss for the year ended December 31, 2015, based on the advisory agreement, the performance compensation for subsequent years is reduced to 10% of investment income until all the investment losses have been recouped and an additional amount equal to 150% of the investment loss is earned. As of December 31, 2017, the reduced performance allocation of 10% would be applied to \$588.5 million of future net investment income before reverting to 20%.

We expect our investment income, including realized and unrealized gains (or losses), to fluctuate from period to period. Fluctuations in realized and unrealized gains (or losses) are a function of both the market performance of the securities held in our investment portfolio, and the timing of additions to and dispositions of securities in our investment portfolio. Our investment advisor uses its discretion over when a gain (or loss) is realized on a particular investment. We believe that net investment income, which includes both realized and unrealized gains (or losses), is the best way to assess our investment performance, rather than analyzing the realized gains (or losses) and unrealized gains (or losses) separately.

For the years ended December 31, 2017, 2016 and 2015, the gross investment returns on our investment portfolio managed by DME Advisors (excluding investment performance compensation) were 1.7%, 7.8% and (20.2)%, respectively, and were comprised of the following:

	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Long portfolio gains (losses)	19.5 %	18.7 %	(17.2)%
Short portfolio gains (losses)	(15.1)%	(11.2)%	0.4 %
Macro gains (losses)	(1.0)%	2.0 %	(1.9)%
Other income and expenses <sup>1</sup>	(1.7)%	(1.7)%	(1.5)%
Gross investment return	1.7 %	7.8 %	(20.2)%
Net investment return	1.5 %	7.2 %	(20.2)%

<sup>1</sup> Excludes performance compensation but includes management fees.

DME Advisors and its affiliates manage and expect to manage other client accounts besides ours, some of which have investment objectives similar to ours. To comply with Regulation FD, our investment returns are posted on our website on a monthly basis. Additionally, our website ([www.greenlightre.ky](http://www.greenlightre.ky)) provides the names of the largest disclosed long positions in our investment portfolio as of the last business day of the month of the relevant posting, as well as information on our long and short exposures. Although DME Advisors discloses all investment positions to us, it may choose not to disclose certain positions to its other clients in order to protect its investment strategy. Therefore, we present on our website the relevant largest long positions and exposure information as disclosed by DME Advisors or its affiliates to their other clients.

### ***Income Taxes***

We are not obligated to pay taxes in the Cayman Islands on either income or capital gains. We have been granted an exemption by the Governor-In-Cabinet from any income taxes that may be imposed in the Cayman Islands for a period of 20 years, expiring on February 1, 2025.

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



Verdant is incorporated in Delaware and, therefore, is subject to taxes in accordance with the U.S. federal rates and regulations prescribed by the Internal Revenue Service. Verdant's future taxable income is expected to be taxed at a rate of 21% (2016: 35%).

As of December 31, 2017, a deferred tax asset of \$1.7 million (2016: \$1.3 million) was included in other assets on the consolidated balance sheets. The increase in deferred tax asset during the year ended December 31, 2017, primarily resulted from GRIL's operating losses for the 2017 year. Based on the timing of the reversal of the temporary differences and likelihood of generating sufficient taxable income to realize the future tax benefit, management believes it is more likely than not that the deferred tax asset will be fully realized in the future and therefore no valuation allowance has been recorded. The Company has not taken any other tax positions that management believes are subject to uncertainty or that are reasonably likely to have a material impact to the Company, GRIL or Verdant.

### **Ratio Analysis**

Due to the opportunistic and customized nature of our underwriting operations, we expect to report different loss and expense ratios in both our frequency and severity businesses from period to period.

The following table provides the ratios:

	Year ended December 31								
	2017			2016			2015		
	<u>Frequency</u>	<u>Severity</u>	<u>Total</u>	<u>Frequency</u>	<u>Severity</u>	<u>Total</u>	<u>Frequency</u>	<u>Severity</u>	<u>Total</u>
Loss ratio	75.4%	141.9%	80.3%	75.8%	55.4%	74.2%	82.6%	9.5%	77.6%
Acquisition cost ratio	27.1	9.8	25.8	26.5	23.2	26.2	28.0	35.2	28.5
Composite ratio	102.5%	151.7%	106.1%	102.3%	78.6%	100.4%	110.6%	44.7%	106.1%
Underwriting expense ratio			2.5			3.2			4.2
Combined ratio			<u>108.6%</u>			<u>103.6%</u>			<u>110.3%</u>

The loss ratio is calculated by dividing loss and loss adjustment expenses incurred by net premiums earned. We expect that the loss ratio will be volatile for our severity business and may exceed that of our frequency business in certain periods. Given that we opportunistically underwrite a concentrated portfolio across several lines of business that have varying expected loss ratios, we can expect there to be significant annual variations in the loss ratios reported from our frequency business. In addition, the loss ratios for both frequency and severity business can vary depending on the mix of the lines of business written.

The acquisition cost ratio is calculated by dividing acquisition costs by net premiums earned. We expect that this ratio will generally be higher for our frequency business than for our severity business.

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

The underwriting expense ratio includes those expenses directly related to underwriting activities as well as an allocation of other general and administrative expenses. Therefore, the underwriting expense ratio is the ratio of underwriting expenses to net premiums earned. In addition, the underwriting expense ratio includes any gain or loss resulting from deposit accounted contracts as well as any amortized cost of weather derivative swaps entered into as part of our underwriting activities.

The combined ratio is the sum of the composite ratio and the underwriting expense ratio. The combined ratio measures the total profitability of our underwriting operations and does not take into account corporate expenses, net investment income or

any foreign exchange gain or loss. Given the nature of our unique underwriting strategy, we expect that our combined ratio may also be volatile from period to period.

## Financial Condition

### Investments; Financial Contracts Receivable; Financial Contracts Payable; Due to Prime Brokers and Other Financial Institutions

Our long investments and financial contracts receivable reported in the consolidated balance sheets as of December 31, 2017, were \$1,375.9 million, compared to \$1,098.9 million as of December 31, 2016, an increase of \$277.0 million, or 25.2%. The significant changes in our long investments and financial contracts receivable were as follows:

Increase (decrease) (\$ in millions)		Explanation
\$359.7	Equities - Listed	Increase primarily due to the acquisition of equity securities as well as an increase in fair values.
\$(15.8)	Commodities - Gold	Decrease primarily due to the reduction of physical gold holdings.
\$(15.3)	Corporate debt	Decrease due to the disposal of certain corporate debt instruments.
\$(63.5)	Financial contracts receivable	Decrease in derivative assets partially due to the decrease in fair value of total return swaps and decrease in the volume of call and put options during the period.

As of December 31, 2017, our exposure to long investments increased to 100.7%, compared to 99.5% as of December 31, 2016. This exposure analysis is conducted on a delta-adjusted basis and excludes macro positions which consist of CDS, interest rate swaps, sovereign debt, currencies, commodities, volatility indexes and derivatives on any of these instruments.

Financial contracts payable as of December 31, 2017 increased by \$20.0 million, or 893.4%, compared to December 31, 2016, primarily due to acquisition of total return equity swap contracts during the period that were in a payable position as of December 31, 2017.

From time to time, we incur indebtedness to our prime brokers and custodians to implement our investment strategy in accordance with our investment guidelines. Under term margin agreements and revolving credit agreements we pledge certain investment securities to borrow cash from prime brokers and custodians in order to provide collateral for trust accounts and for our letters of credit outstanding. The borrowed amount is held in accounts for the benefit of the beneficiaries and is included in the restricted cash and cash equivalents balance on the consolidated balance sheet. As of December 31, 2017, we had borrowed \$672.7 million (2016: \$319.8 million) from our prime brokers and custodians for investing activities (including short positions) and to provide collateral for trust accounts and letters of credit. The increase in the amount borrowed from prime brokers and custodians was partially a result of the higher level of margin borrowing required for the current composition of the investment portfolio as of December 31, 2017 and partially a result of the increase in collateral provided to our cedents in the form of trusts and letters of credit to support the increase to our loss reserves.

In accordance with Greenlight Re's investment guidelines, DME Advisors may employ up to 15% (GRIL: 5%) net margin leverage for extended periods of time, and up to 30% (GRIL: 20%) net margin leverage relating to investing activities for periods of less than 30 days.

Our investment portfolio, including any derivatives, is valued at fair value and any unrealized gains or losses are reflected in net investment income (loss) in the consolidated statements of income. As of December 31, 2017, 91.5% (2016: 88.3%) of our investment portfolio (excluding restricted and unrestricted cash and cash equivalents) was comprised of investments valued based on quoted prices in actively traded markets (Level 1), 7.1% (2016: 10.7%) was comprised of

securities valued based on observable inputs other than quoted prices (Level 2) and 0.3% (2016: 0.7%) was comprised of securities valued based on non-observable inputs (Level 3). As of December 31, 2017, 1.06% (2016: 0.3%) of our investment portfolio was comprised of unlisted equity funds valued using the funds' net asset values as a practical expedient. (Refer to Note 3 "Financial Instruments" in the consolidated financial statements for details of transfers into and out of Level 3 during the year ended December 31, 2017).

In determining whether a market for a financial instrument is active or inactive, we obtain information from DME Advisors, based on feedback it receives from executing brokers, market makers, analysts and traders to assess the level of market activity and available liquidity for any given financial instrument. Where a financial instrument is valued based on broker quotes, DME Advisors requests multiple quotes. The ultimate value is based on an average of the quotes obtained. Broker quoted prices are generally not adjusted in determining the ultimate values and are obtained with the expectation of the quotes being binding. As of December 31, 2017, \$129.8 million (2016: \$140.1 million) of our investments (longs, shorts and derivatives) were valued based on broker quotes, of which \$129.0 million (2016: \$137.6 million) were based on broker quotes that utilized observable market information and classified as Level 2 fair value measurements, and \$0.9 million (2016: \$2.4 million) were based on broker quotes that utilized non-observable inputs and classified as Level 3 fair value measurements.

Non-observable inputs used by our investment advisor include the use of investment manager statements and management estimates based on third party appraisals of underlying assets for valuing private equity investments.

### **Securities Sold, Not Yet Purchased; Restricted Cash and Cash Equivalents**

As of December 31, 2017, our securities sold, not yet purchased were \$912.8 million, compared to \$859.9 million at December 31, 2016. Our short exposure was 67.2% as of December 31, 2017, compared to 72.9% at December 31, 2016. This exposure analysis is conducted on a delta-adjusted basis and excludes macro positions which consist of CDS, interest rate swaps, sovereign debt, currencies, commodities, volatility indexes and derivatives on any of these instruments.

Unlike long investments, short sales theoretically involve unlimited loss potential since there is no limit as to how high the market price of a security may rise. While it is not possible to list all of the reasons why a loss on a short sale may occur, a loss on a short sale may be caused by one or more of the following factors:

- Fluctuations in the share price due to an overall positive investment market;
- Sudden unexpected changes in the underlying business model of the issuer;
- Changes in laws and regulations relating to short sales;
- Press releases and earnings guidance issued by the issuer;
- A merger or acquisition of the issuer at a price in excess of the current share price;
- The shares of the issuer becoming difficult to borrow; or
- A short squeeze.

Given the various scenarios under which a loss may occur on a short sale, it is not possible to quantify the risk and uncertainty of loss relating to short sales. However, DME Advisors typically performs a detailed analysis prior to entering into a short sale. Thereafter, the investment is routinely monitored by DME Advisors. As of December 31, 2017, Greenlight Re's investment guidelines limit any single investment from constituting more than 20% of the portfolio (10% for GRIL's portfolio) at any given time, which limits the potential adverse impact on our results of operations and financial position from any one position.

As of December 31, 2017, restricted cash included \$912.8 million relating to collateral for securities sold, not yet purchased, compared to \$859.9 million as of December 31, 2016.

Overall, our restricted cash increased by \$301.2 million, or 25.0%, from \$1,202.7 million to \$1,503.8 million, partially due to the increase in short securities which increased by \$52.9 million and an increase in swap counterparty collateral which increased by \$17.3 million. The increase in restricted cash was primarily due to an increase of \$231.0 million in collateral for trusts and letters of credit as of December 31, 2017.

## Reinsurance Balances Receivable; Reinsurance Balance Payable; Deferred Acquisition Costs, Net

At December 31, 2017, reinsurance balances receivable were \$301.8 million, compared to \$219.1 million as of December 31, 2016, an increase of \$82.6 million, or 37.7%. The increase in reinsurance balances receivable was primarily attributable to an increase in premiums on contracts currently in force including net premiums held by ceding insurers on certain deals that allow for funds to be withheld by the ceding insurer. The reinsurance balances receivable are fully collectible and no allowance for bad debt was considered necessary at December 31, 2017. To a lesser extent the increase in reinsurance balances receivable related to deposit assets on a retroceded contract that was deposit accounted.

At December 31, 2017, reinsurance balances payable were \$144.1 million, compared to \$41.4 million as of December 31, 2016, an increase of \$102.6 million, or 247.8%. The increase in reinsurance balances payable was primarily attributable to premiums payable on new retroceded contracts and to a lesser extent, to deposit liabilities on a new contract that was deposit accounted.

At December 31, 2017, the change in deferred acquisition costs (net of retrocession) compared to December 31, 2016 was insignificant. We evaluate the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment income is greater than the expected future claims and expenses. If a loss is probable on the unexpired portion of policies in force, a premium deficiency loss is recognized. As of December 31, 2017, we believe that the deferred acquisition costs were fully recoverable and no premium deficiency loss was recorded.

## Loss and Loss Adjustment Expense Reserves; Loss and Loss Adjustment Expenses Recoverable;

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

	December 31, 2017			December 31, 2016		
	Case Reserves	IBNR	Total	Case Reserves	IBNR	Total
	(\$ in thousands)					
Frequency	\$ 119,239	\$ 245,382	\$ 364,621	\$ 81,676	\$ 183,134	\$ 264,810
Severity	58,849	40,910	99,759	17,139	24,692	41,831
Total	<u>\$ 178,088</u>	<u>\$ 286,292</u>	<u>\$ 464,380</u>	<u>\$ 98,815</u>	<u>\$ 207,826</u>	<u>\$ 306,641</u>

During the year ended December 31, 2017, the frequency loss reserves increased by \$99.8 million, or 37.7%, to \$364.6 million from \$264.8 million as of December 31, 2016. The increases in both case reserves and IBNR were primarily related to the increase in premiums earned during the period on active frequency contracts, and to a lesser extent, related to prior year development on loss reserves.

During the year ended December 31, 2017, the severity loss reserves increased by \$57.9 million, or 138.5%, primarily relating to case reserves on catastrophe contracts. Approximately \$45.9 million of severity case reserves related to loss reserves relating to hurricanes Harvey, Irma and Maria, the Mexican earthquakes and the California wildfires. These gross case reserves are before netting loss reserves recoverable of \$15.0 million under our retroceded catastrophe excess of loss contracts.

During the year ended December 31, 2017, the loss and loss adjustment expenses recoverable increased by \$26.8 million to \$29.5 million. The increase was partially as a result of retroceded quota share agreements relating to private passenger automobile entered into during 2017, and partially relating to recovery of catastrophe losses from the retroceded catastrophe excess of loss contracts.

See Note 7 of the accompanying consolidated financial statements for reconciliation of claims reserves, loss development tables by accident year and for an explanation of significant prior period loss developments.

For most of our contracts written as of December 31, 2017, our risk exposure is limited by defined limits of liability. Once the loss limit has been reached, we have no further exposure to additional losses from that contract outside of contract

failure. However, certain contracts, particularly quota share contracts that relate to first dollar exposure, may not contain aggregate limits. Our severity business, and to a lesser extent our frequency business, include certain contracts that contain or may contain natural peril loss exposure. As of January 1, 2018, our net annual aggregate loss exposure to any series of natural peril events was \$232.2 million. The estimate of our net annual loss exposure:

- includes property, marine and energy, motor and catastrophe workers' compensation exposures, but not other casualty exposures;
- is net of any retrocession (including ILWs);
- is net of any estimated reinstatement and additional premiums;
- is net of existing estimated losses which reduce the limit of liability;
- is based on expected premium where limits of liability are expressed as a percentage of premium;
- uses the maximum single underwriting year exposure for renewed risks-attaching contracts; and
- does not include transactional costs such as brokerage, collateral costs and federal excise tax.

We categorize peak zones as: United States, Canada and the Caribbean; Europe; Japan; and the rest of the world. The following table provides single event and net annual aggregate loss exposure information for the peak zones of our natural peril coverage as of January 1, 2018:

Zone	January 1, 2018	
	Single Event Loss	Net Annual Aggregate Loss
	(\$ in thousands)	
United States, Canada and the Caribbean	\$ 168,849	\$ 232,232
Europe	110,856	130,226
Japan	110,856	130,226
Rest of the world	110,856	130,226
Maximum Aggregate	168,849	232,232

Since our loss exposures are based on contract limits, these limits may be significantly higher than modeled loss estimates which are commonly used in the insurance industry. Therefore, we also estimate catastrophe losses in terms of the probable maximum loss ("PML"). We define PML as the anticipated loss, taking into account contract terms and limits, caused by a catastrophe affecting a broad geographic area, such as that caused by an earthquake or hurricane. We anticipate that the PML will vary depending upon the modeled simulated losses and the composition of the in-force book of business. The projected severity levels are described in terms of a 1-in-250 year return period. The 1-in-250 year return period PML means that there is a 0.4% chance in any given year that an occurrence of a natural catastrophe will lead to losses exceeding the stated estimate. In other words, it corresponds to a 99.6% probability that the loss from an event will fall below the indicated PML.

PMLs are estimates and as a result, we cannot provide any assurance that any actual event will align with the modeled event or that actual losses from events similar to the modeled events will not vary materially from the modeled event PML. The PML estimate includes all significant exposure from our reinsurance operations. This includes coverage for property, marine and energy, motor and catastrophe workers' compensation.

As of January 1, 2018, our estimated net PML exposure (net of retrocession and reinstatement premiums) at a 1-in-250 year return period for a single event and in aggregate was \$94.5 million and \$115.4 million, respectively. The following table provides the PML for single event loss exposure and aggregate loss exposure to natural peril losses for each of the peak zones as of January 1, 2018:

Zone	January 1, 2018	
	1-in-250 year return period	
	Single Event Loss	Aggregate Loss
	(\$ in thousands)	
United States, Canada and the Caribbean	\$ 88,831	\$ 107,992
Europe	38,109	49,969
Japan	9,787	11,462
Rest of the world	8,561	10,732
Maximum	94,493	115,441

### Total Equity

Total equity reported on the consolidated balance sheet, which includes non-controlling interest, decreased by \$41.5 million to \$844.3 million as of December 31, 2017, compared to \$885.8 million as of December 31, 2016. Retained earnings decreased primarily due to net loss of \$45.0 million reported for the year ended December 31, 2017. The non-controlling interest increased by \$1.4 million during the year ended December 31, 2017. See Note 13 for additional information regarding non-controlling interests in related party joint venture. The increase in additional paid-in capital for the year ended December 31, 2017 of \$3.0 million was primarily related to share-based compensation for the year ended December 31, 2017.

### Liquidity and Capital Resources

#### General

Greenlight Capital Re is organized as a holding company with no operations of its own. As a holding company, Greenlight Capital Re has minimal continuing cash needs, most of which are related to the payment of administrative expenses. All of our underwriting operations are conducted through our wholly-owned reinsurance subsidiaries, Greenlight Re and GRIL, which underwrite property and casualty reinsurance. There are restrictions on each of Greenlight Re's and GRIL's ability to pay dividends, which are described in more detail below. It is our current policy to retain earnings to support the growth of our business. We currently do not expect to pay dividends on our ordinary shares.

As of December 31, 2017, Greenlight Re and GRIL were each rated "A- (Excellent)" with a stable outlook, by A.M. Best. The ratings reflect A.M. Best's opinion of our reinsurance subsidiaries' financial strength, operating performance and ability to meet obligations and it is not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our Class A ordinary shares. If A.M. Best downgrades our ratings below "A- (Excellent)" or withdraws our rating, we could be severely limited or prevented from writing any new reinsurance contracts, which would significantly and negatively affect our business. Our A.M. Best ratings may be revised or revoked at the sole discretion of the rating agency.

## *Sources and Uses of Funds*

Our sources of funds consist primarily of premium receipts (net of brokerage and ceding commissions), investment income (net of advisory compensation and investment expenses), including realized gains, and other income. We use cash from our operations to pay losses and loss adjustment expenses, profit commissions and general and administrative expenses. Substantially all of our funds, including shareholders' capital, net of funds required for business operations, are invested by DME Advisors in accordance with our investment guidelines. As of December 31, 2017, approximately 94% (December 31, 2016: 94%) of our long investments were comprised of publicly-traded equity securities and other holdings which can be readily liquidated to meet current and future liabilities. Given our value-oriented long and short investment strategy, if markets are distressed, we would expect the liability of the short portfolio to decline. Any reduction in the liability would cause our need for restricted cash to decrease and thereby free up cash to be used for any purpose. Additionally, since the majority of our invested assets can be readily liquidated, even in distressed markets, we believe sufficient securities can be readily sold or covered in a timely manner to generate cash to pay claims. Since we classify our investments as "trading," we book all gains and losses (including unrealized gains and losses) on all our investments (including derivatives) as net investment income or loss in our consolidated statements of income for each reporting period.

For the years ended December 31, 2017, 2016 and 2015, the net cash provided by (used in) operating activities was \$94.4 million, \$(35.8) million and \$(57.4) million, respectively. Included in the net cash provided by (used in) operating activities were investment related expenses, such as investment advisor compensation, and net interest and dividend expenses of \$18.3 million, \$23.0 million and \$35.0 million for the years ended December 31, 2017, 2016 and 2015, respectively. Excluding the investment related expenses from the net cash used in operating activities, the net cash primarily provided by (used by) our underwriting activities was \$112.7 million, \$(12.8) million and \$(22.4) million for the years ended December 31, 2017, 2016 and 2015, respectively. For the year ended December 31, 2017, the increase in cash from underwriting activities was primarily due to the increase in premiums written and collected during the period. Correspondingly, there was an increase in loss and loss adjustment expense reserves which will be paid in the future. During the comparative year ended December 31, 2016, we had paid \$67.0 million to a third party relating to the construction defect liabilities loss portfolio transfer. For the year ended December 31, 2016, other than the loss portfolio transfer, we had generated cash from our underwriting activities of \$54.2 million. Generally, in a given period if the premiums collected are sufficient to cover claim payments, we would generate cash from our underwriting activities. Due to the inherent nature of our underwriting portfolio, claims are often paid several months or even years after the premiums are collected. The cash generated from underwriting activities, however, may be volatile from period to period depending on the underwriting opportunities available.

For the year ended December 31, 2017, our investing activities used cash of \$106.5 million (2016: used cash of \$30.4 million, 2015: provided cash of \$177.7 million), driven primarily by an increase in restricted cash and cash equivalents compared to the same period in 2016. Cash used for, or provided by, investing activities is net of any contributions into or (withdrawals from) the joint venture by DME (\$2.1 million for 2017, \$7.8 million for 2016 and \$0.0 million for 2015).

We used \$2.8 million in financing activities relating to the repurchase of Class A ordinary shares during the year ended December 31, 2017 (2016: nil and 2015: \$17.7 million).

As of December 31, 2017, we believe we have sufficient cash flow from operating and investing activities to meet our foreseeable liquidity requirements. We expect that our operational needs for liquidity will be met by cash, funds generated from underwriting activities and investment income, including realized gains and the disposition of investment securities. As of December 31, 2017, we had no plans to issue debt and expect to fund our operations for the next twelve months from operating cash flow. However, we cannot provide assurances that in the future we will not incur indebtedness to implement our business strategy, pay claims or make acquisitions.

Although GLRE is not subject to any significant legal prohibitions on the payment of dividends, Greenlight Re and GRIL are each subject to regulatory minimum capital requirements and regulatory constraints that affect their ability to pay dividends to us. In addition, any dividend payment would have to be approved by the relevant regulatory authorities prior to payment. As of December 31, 2017, Greenlight Re and GRIL both exceeded the regulatory minimum capital requirements.

## Letters of Credit and Trust Arrangements

As of December 31, 2017, neither Greenlight Re nor GRIL was licensed or admitted as a reinsurer in any jurisdiction other than the Cayman Islands and the European Economic Area, respectively. Because many jurisdictions do not permit domestic insurance companies to take credit on their statutory financial statements for loss recoveries or ceded unearned premiums unless appropriate measures are in place for reinsurance obtained from unlicensed or non-admitted insurers, we anticipate that all of our U.S. clients and some of our non-U.S. clients will require us to provide collateral through funds withheld, trust arrangements, letters of credit or a combination thereof.

As of December 31, 2017, we had three letter of credit facilities available with an aggregate capacity of \$600.0 million (2016: \$600.0 million) with various financial institutions. On September 26, 2017, we provided a notice of cancellation to JP Morgan Chase Bank N.A. to terminate the letter of credit facility of \$100.0 million when the facility expires on January 27, 2018. See Note 14 of the accompanying consolidated financial statements for details on each of the available facilities. We provide collateral to cedents in the form of letters of credit and trust arrangements. As of December 31, 2017, the aggregate amount of collateral provided to cedents under such arrangements was \$566.4 million (2016: \$341.7 million). The letters of credit and trust accounts are secured by equity and debt securities as well as cash and cash equivalents with a total fair value of \$578.3 million as of December 31, 2017 (2016: \$397.2 million).

Each of the letter of credit facilities contain customary events of default and restrictive covenants, including but not limited to, limitations on liens on collateral, transactions with affiliates, mergers and sales of assets, as well as solvency and maintenance of certain minimum pledged equity requirements, and restricts issuance of any debt without the consent of the letter of credit provider. Additionally, if an event of default exists, as defined in the letter of credit facilities, Greenlight Re would be prohibited from paying dividends to its parent company. The Company was in compliance with all the covenants of each of these facilities as of December 31, 2017.

## Capital

Our capital structure currently consists entirely of equity issued in two separate classes of ordinary shares. We expect that the existing capital base and internally generated funds will be sufficient to implement our business strategy for the foreseeable future. Consequently, we do not presently anticipate that we will incur any material indebtedness in the ordinary course of our business other than temporary borrowing directly related to the management of our investment portfolio. However, in order to provide us with flexibility and timely access to public capital markets should we require additional capital for working capital, capital expenditures, acquisitions or other general corporate purposes, we have filed a Form S-3 registration statement, which expires in June 2018 unless renewed. We did not make any significant commitments for capital expenditures during the year ended December 31, 2017.

Our Board of Directors has adopted a share repurchase plan authorizing the Company to repurchase up to 2.0 million Class A ordinary shares or securities convertible into Class A ordinary shares in the open market, through privately negotiated transactions or Rule 10b5-1 stock trading plans. The current share repurchase plan which was renewed by the Board of Directors on April 26, 2017, expires on June 30, 2018 unless renewed by the Board of Directors. As of December 31, 2017, 1.9 million Class A ordinary shares remained authorized for repurchase under the repurchase plan. The Company is not required to repurchase any of the Class A ordinary shares and the repurchase plan may be modified, suspended or terminated at the election of our Board of Directors at any time without prior notice. During the year ended December 31, 2017, 136,312 Class A ordinary shares were repurchased by the Company at an average price of \$20.66 per share.

On April 26, 2017, our shareholders approved an amendment to our stock incentive plan to increase the number of Class A ordinary shares available for issuance by 1,500,000 shares from 3,500,000 million to 5,000,000. As of December 31, 2017, there were 1,271,154 Class A ordinary shares available for future issuance under the Company's stock incentive plan. The stock incentive plan is administered by the Compensation Committee of the Board of Directors.



## Contractual Obligations and Commitments

The following table shows our aggregate contractual obligations as of December 31, 2017 by time period remaining:

	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>(\$ in thousands)</b>					
Operating lease obligations <sup>(1)</sup>	\$ 388	\$ 310	\$ 58	\$ —	\$ 756
Private equity and limited partnerships <sup>(2)</sup>	6,522	—	—	—	6,522
Loss and loss adjustment expense reserves <sup>(3)</sup>	236,372	126,479	44,000	57,529	464,380
Revolving credit agreement	25,528	—	—	—	25,528
	<u>\$ 268,810</u>	<u>\$ 126,789</u>	<u>\$ 44,058</u>	<u>\$ 57,529</u>	<u>\$ 497,186</u>

<sup>(1)</sup> Reflects our minimum contractual obligations pursuant to the lease agreements as described below.

<sup>(2)</sup> As of December 31, 2017, we had made total commitments of \$25.3 million in private investments of which we had invested \$18.8 million, and our remaining commitments to these investments total \$6.5 million. Given the nature of the private equity investments, we are unable to determine with any degree of accuracy as to when the commitments will be called. As such, for the purposes of the above table, we have assumed that all commitments with no fixed payment schedule will be made within one year. Under our investment guidelines, in effect as of the date hereof, no more than 10% of the assets in the investment portfolio may be held in private equity securities without specific approval from the Board of Directors.

<sup>(3)</sup> Due to the nature of our reinsurance operations, the amount and timing of the cash flows associated with our reinsurance contractual liabilities will fluctuate, perhaps materially, and, therefore, are highly uncertain.

As of December 31, 2017, \$912.8 million of securities sold, not yet purchased, were secured by \$912.8 million of restricted cash held by prime brokers to cover obligations relating to securities sold, not yet purchased. These amounts are not included in the contractual obligations table above because there is no maturity date for securities sold, not yet purchased, and their maturities are not set by any contract and as such their due dates cannot be estimated.

Greenlight Re has entered into lease agreements for office space in the Cayman Islands. The leases expire on June 30, 2018 and Greenlight Re has the option to renew the leases for a further five year term. Under the terms of the lease agreements, Greenlight Re is committed to annual rent payments ranging from \$0.3 million at inception to \$0.5 million at expiry. The minimum lease payment obligations are included in the above table under operating lease obligations and in Note 14 to the accompanying consolidated financial statements.

GRIL has entered into a lease agreement for office space in Dublin, Ireland. Under the terms of this lease agreement, GRIL is committed to minimum annual rent payments denominated in Euros approximating €0.1 million until May 2021, and adjusted to the prevailing market rates for each of the two subsequent five-year terms. GRIL has the option to terminate the lease agreement in 2021. The minimum lease payment obligations are included in the above table under operating lease obligations and in Note 14 to the accompanying consolidated financial statements.

The Company has entered into a secured revolving credit facility to provide funding for its investment activities (see Note 14 for further details on the revolving credit facility). The Company has the ability to borrow \$50.0 million (the “commitment”) under the credit facility and had borrowed \$25.0 million as of December 31, 2017. The credit facility matures on November 8, 2018 and can be extended for one year by the Company upon providing 120 days’ notice to the lender. The repayment of the borrowed amount including estimated interest expense has been included in the above table based on the assumption that the credit facility expires and is not renewed.

The Company and its reinsurance subsidiaries are parties to a joint venture agreement with DME Advisors under which the Company, its reinsurance subsidiaries and DME are participants of a joint venture for the purpose of managing certain jointly held assets (the “venture agreement”). In addition, the Company, its reinsurance subsidiaries and DME have entered into a separate investment advisory agreement with DME Advisors (the “advisory agreement”). The term of each of the current venture agreement and the advisory agreement is January 1, 2017 through December 31, 2019, with automatic three-

year renewals unless 90 days prior to the end of the then current term, either 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.

Pursuant to the venture agreement, we pay DME Advisors a monthly management fee of 0.125% on our share of the assets managed by DME Advisors and we provide DME a performance allocation equal to 20% of the net profit, calculated per annum, of the Company's share of the capital account managed by DME Advisors, subject to a loss carry forward provision. The loss carry forward provision allows DME to earn a reduced performance allocation of 10% of profits in any year subsequent to the year in which the investment account incurs a loss, until all the losses are recouped and an additional amount equal to 150% of the aggregate investment loss is earned. DME is not entitled to earn a performance allocation in a year in which the investment portfolio incurs a loss. For the year ended December 31, 2017, performance allocation of \$2.1 million and management fees of \$17.8 million were included in net investment income.

We have entered into a service agreement with DME Advisors pursuant to which DME Advisors will provide investor relations services to us for compensation of \$5,000 per month plus expenses. The service agreement had an initial term of one year, and continues for sequential one-year periods until terminated by us or DME Advisors. Either party may terminate the service agreement for any reason with 30 days prior written notice to the other party.

Our related party transactions are presented in Note 13 to the accompanying consolidated financial statements.

### **Off-Balance Sheet Financing Arrangements**

We have no obligations, assets or liabilities, other than those derivatives in our investment portfolio that are disclosed in the consolidated financial statements, which would be considered off-balance sheet arrangements. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements.

### **Effects of Inflation**

Inflation generally affects the cost of claims and claim expenses, as well as asset values in our investment portfolio. The anticipated effects of inflation on our claim costs are considered in our pricing and reserving models. However, the actual effect of potential increases in claim costs due to inflation cannot be accurately known until claims are ultimately settled, and may differ significantly from our estimate. In addition, the onset, duration and severity of an inflationary period cannot be predicted or estimated with precision.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

- equity price risk;
- commodity price risk;
- foreign currency risk;
- interest rate risk;
- credit risk; and
- political risk.

## Equity Price Risk

As of December 31, 2017, our investment portfolio consisted of long and short equity securities, along with certain equity-based derivative instruments, the carrying values of which are primarily based on quoted market prices. Generally, market prices of common equity securities are subject to fluctuation, which could cause the amount to be realized upon the closing of the position to differ significantly from their current reported value. This risk is partly mitigated by the presence of both long and short equity securities within our investment portfolio. As of December 31, 2017, a 10% decline in the price of each of these listed equity securities and equity-based derivative instruments would result in a \$40.4 million, or 3.1%, decline in the fair value of our 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. Our investment portfolio periodically includes long or short investments in commodities or in derivatives directly impacted by fluctuations in the prices of commodities. As of December 31, 2017, our investment portfolio included unhedged exposure to changes in gold prices, through ownership of physical gold and derivative instruments with underlying exposure to changes in the price of gold. Additionally, as of December 31, 2017, our investment portfolio included derivative instruments with underlying exposure to changes in the price of oil and natural gas.

The following table summarizes the net impact that a 10% increase and decrease in commodity prices would have on the value of our investment portfolio as of December 31, 2017. The below table excludes the indirect effect that changes in commodity prices might have on equity securities in our investment portfolio.

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
	(\$ in thousands)		(\$ in thousands)	
Gold	\$ 12,738	1.0%	\$ (12,738)	(1.0)%
Natural Gas	2,644	0.2	(2,644)	(0.2)
Oil	1,998	0.2	(1,998)	(0.2)
Total	\$ 17,380	1.4%	\$ (17,380)	(1.4)%

We, along with our investment advisor, periodically monitor our exposure to any other commodity price fluctuations and generally do not expect changes in other commodity prices to have a materially adverse impact on our operations.

## Foreign Currency Risk

Certain of our 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 our foreign currency loss reserves (case reserves and IBNR) are in excess of the corresponding foreign currency cash balances and there is an increase in the exchange rate of that foreign currency. As of December 31, 2017, we had a net unhedged foreign currency exposure on GBP denominated loss reserves (net of funds withheld) of £5.6 million. As of December 31, 2017, a 10% decrease in the U.S. dollar against the GBP (all else being constant) would result in an estimated increase in loss reserves of \$0.8 million and a corresponding foreign exchange loss. Alternatively, a 10% increase in the U.S. dollar against the GBP, would result in an estimated decrease of \$0.8 million in our recorded loss reserves and a corresponding foreign exchange gain.

While we do not seek to specifically match our liabilities under reinsurance policies that are payable in foreign currencies with investments denominated in such currencies, we continually monitor our exposure to potential foreign currency losses and may use foreign currency cash and cash equivalents or forward foreign currency exchange contracts in an effort to mitigate against adverse foreign currency movements.

We are also exposed to foreign currency risk through cash, forwards, options and investments in securities denominated in foreign currencies. Foreign currency exchange rate risk is the potential for adverse changes in the U.S. dollar value of investments (long and short), speculative foreign currency options and cash positions due to a change in the exchange rate of the foreign currency in which cash and financial instruments are denominated. As of December 31, 2017, some of our currency exposure resulting from foreign denominated securities (longs and shorts) was reduced by offsetting cash balances denominated in the corresponding foreign currencies.

The following table summarizes the net impact that a 10% increase and decrease in the value of the U.S. dollar against select foreign currencies would have on the value of our investment portfolio as of December 31, 2017:

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
	(\$ in thousands)			
Australian Dollar	\$ 349	— %	\$ (349)	—%
Euro	(5,393)	(0.4)	5,393	0.4
Japanese Yen	2,342	0.2	(2,342)	(0.2)
South Korean Won	414	—	(414)	—
Other	(238)	—	311	—
Total	\$ (2,526)	(0.2)%	\$ 2,599	0.2%

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 securities denominated in foreign currencies and related foreign currency instruments, and should not be relied on as indicative of future results.

### Interest Rate Risk

Our investment portfolio includes interest rate sensitive securities, such as corporate and sovereign debt instruments 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 our long fixed-income portfolio falls, and the opposite is also true as interest rates fall. Additionally, some of our derivative investments may also be sensitive to interest rates and their value may indirectly fluctuate with changes in interest rates.

The following table summarizes the impact that a 100 basis point increase or decrease in interest rates would have on the value of our investment portfolio as of December 31, 2017:

	100 basis point increase in interest rates		100 basis point decrease in interest rates	
	Change in fair value	Change in fair value as % of investment portfolio	Change in fair value	Change in fair value as % of investment portfolio
(\$ in thousands)				
Debt instruments	\$ 17,802	1.4%	\$ (22,888)	(1.8)%
Interest rate swaps	3,950	0.3	(3,950)	(0.3)
Net exposure to interest rate risk	\$ 21,752	1.7%	\$ (26,838)	(2.1)%

For the purposes of the above table, the hypothetical impact of changes in interest rates on debt instruments was determined based on the interest rates applicable to each instrument individually. We periodically monitor our net exposure to interest rate risk and generally do not expect changes in interest rates to have a materially adverse impact on our operations.

### Credit Risk

We are exposed to credit risk primarily from the possibility that counterparties may default on their obligations to us. The amount of the maximum exposure to credit risk is indicated by the carrying value of our financial assets including notes receivable. We evaluate the financial condition of our notes receivable counterparties and monitor our exposure to them on a regular basis. We are also exposed to credit risk from our business partners and clients relating to balances receivable under the reinsurance contracts, including premiums receivable, losses recoverable and commission adjustments recoverable. We monitor the collectability of these balances on a regular basis.

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

### Political Risk

We are exposed to political risk to the extent that we underwrite business from entities located in foreign markets and to the extent that DME Advisors, on our behalf and subject to our investment guidelines, trades securities that are listed on various U.S. and foreign exchanges and markets. The governments in any of these jurisdictions could impose restrictions, regulations or other measures, which may have a material adverse impact on our underwriting operations and investment strategy. We currently do not write political risk coverage on our insurance contracts; however, changes in government laws and regulations may impact our underwriting operations (see “Item 1A. Risk Factors”).

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to this Item is set forth under Part IV Item 15.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

As required by Rules 13a-15 and 15d-15 of the Exchange Act, the Company has evaluated, with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the effectiveness of its disclosure controls and procedures (as defined in such rules) as of the end of the period covered by this report. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports prepared in accordance with the rules and regulations of the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures will prevent all errors and all frauds. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

#### **Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting during the fiscal quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company continues to review its disclosure controls and procedures, including its internal controls over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company's systems evolve with its business.

#### **Management's Report on Internal Control Over Financial Reporting**

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

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

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time. Our system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Our management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in the Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the 2013 framework). Based on this evaluation, our management concluded that our system of internal control over financial reporting was effective as of December 31, 2017. The effectiveness of our internal control over financial reporting has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

## **ITEM 9B. OTHER INFORMATION**

### **Disclosure of Certain Activities Under Section 13(r) of the Securities Exchange Act of 1934**

Section 13(r) of the Securities Exchange Act of 1934, as amended, requires an issuer to disclose in its annual or quarterly reports whether it or an affiliate knowingly engaged in certain activities described in that section, including certain activities related to Iran during the period covered by the report. During 2016, the Office of Foreign Assets Control of the U.S. Department of the Treasury adopted General License H, which authorizes non-U.S. entities that are owned or controlled by a U.S. person to engage in certain activities with Iran so long as they comply with certain specific requirements set forth therein. As and when allowed by the applicable law and regulations, we may enter into reinsurance contracts with non-U.S. insurers on a global basis, including insurers of liability, marine, aviation and energy risks, which may have some underlying exposure to Iran. We are unable to attribute gross revenues or net profits from these policies to activities relating to Iran.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

This item is omitted because a definitive proxy statement that involves the election of directors will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A, which information required by this item set forth in the proxy statement is incorporated by reference.

### **ITEM 11. EXECUTIVE COMPENSATION**

This item is omitted because a definitive proxy statement that involves the election of directors will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A, which information required by this item set forth in the proxy statement is incorporated by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

This item is omitted because a definitive proxy statement that involves the election of directors will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A, which information required by this item set forth in the proxy statement is incorporated by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

This item is omitted because a definitive proxy statement that involves the election of directors will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A, which information required by this item set forth in the proxy statement is incorporated by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

This item is omitted because a definitive proxy statement that involves the election of directors will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to Regulation 14A, which information required by this item set forth in the proxy statement is incorporated by reference.



## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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<b>(a)(1) Financial Statements</b>	
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Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015	<b>F-4</b>
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<b>(a)(3)</b> The exhibits required to be filed by this Item 15. are set forth in the Exhibit Index accompanying this report.	

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### GREENLIGHT CAPITAL RE, LTD.

By: /s/ Simon Burton

Simon Burton  
Chief Executive Officer  
February 20, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ DAVID M. EINHORN

David M. Einhorn  
Director

February 20, 2018

/s/ LEONARD GOLDBERG

Leonard Goldberg  
Director

February 20, 2018

/s/ FRANK D. LACKNER

Frank D. Lackner  
Director

February 20, 2018

/s/ ALAN BROOKS

Alan Brooks  
Director

February 20, 2018

/s/ IAN ISAACS

Ian Isaacs  
Director

February 20, 2018

/s/ JOSEPH P. PLATT

Joseph P. Platt  
Director

February 20, 2018

/s/ TIM COURTIS

Tim Courtis  
Chief Financial Officer  
(principal financial and accounting officer)

February 20, 2018

/s/ BRYAN MURPHY

Bryan Murphy  
Director

February 20, 2018

/s/ SIMON BURTON

Simon Burton  
Chief Executive Officer  
(principal executive officer)

February 20, 2018

/s/ HOPE TAITZ

Hope Taitz  
Director

February 20, 2018

## **Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors  
Greenlight Capital Re, Ltd.w  
Grand Cayman, Cayman Islands

### **Opinion on Internal Control over Financial Reporting**

We have audited Greenlight Capital Re, Ltd.'s (the "Company's") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2017 and 2016, the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and schedules and our report dated February 20, 2018 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP  
Grand Rapids, Michigan, USA  
February 20, 2018

## **Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors  
Greenlight Capital Re, Ltd.  
Grand Cayman, Cayman Islands

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Greenlight Capital Re, Ltd. (the “Company”) and subsidiaries as of December 31, 2017 and 2016, the related consolidated statements of income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017 and the related notes and schedules (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 20, 2018 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s auditor since 2006.

/s/ BDO USA, LLP  
Grand Rapids, Michigan, USA  
February 20, 2018

**GREENLIGHT CAPITAL RE, LTD.**  
**CONSOLIDATED BALANCE SHEETS**

**December 31, 2017 and 2016**

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

	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Investments		
Debt instruments, trading, at fair value	\$ 7,180	\$ 22,473
Equity securities, trading, at fair value	1,203,672	844,001
Other investments, at fair value	152,132	156,063
Total investments	1,362,984	1,022,537
Cash and cash equivalents	27,285	39,858
Restricted cash and cash equivalents	1,503,813	1,202,651
Financial contracts receivable, at fair value	12,893	76,381
Reinsurance balances receivable	301,762	219,126
Loss and loss adjustment expenses recoverable	29,459	2,704
Deferred acquisition costs, net	62,350	61,022
Unearned premiums ceded	25,120	2,377
Notes receivable, net	28,497	33,734
Other assets	3,230	4,303
<b>Total assets</b>	<b>\$ 3,357,393</b>	<b>\$ 2,664,693</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Securities sold, not yet purchased, at fair value	\$ 912,797	\$ 859,902
Financial contracts payable, at fair value	22,222	2,237
Due to prime brokers and other financial institutions	672,700	319,830
Loss and loss adjustment expense reserves	464,380	306,641
Unearned premium reserves	255,818	222,527
Reinsurance balances payable	144,058	41,415
Funds withheld	23,579	5,927
Other liabilities	10,413	14,527
<b>Total liabilities</b>	<b>2,505,967</b>	<b>1,773,006</b>
Redeemable non-controlling interest in related party joint venture	7,169	5,884
<b>Equity</b>		
Preferred share capital (par value \$0.10; authorized, 50,000,000; none issued)	—	—
Ordinary share capital (Class A: par value \$0.10; authorized, 100,000,000; issued and outstanding, 31,104,830 (2016: 31,111,432); Class B: par value \$0.10; authorized, 25,000,000; issued and outstanding, 6,254,715 (2016: 6,254,895))	3,736	3,737
Additional paid-in capital	503,316	500,337
Retained earnings	324,272	370,168
<b>Shareholders' equity attributable to shareholders</b>	831,324	874,242
Non-controlling interest in related party joint venture	12,933	11,561
<b>Total equity</b>	<b>844,257</b>	<b>885,803</b>
<b>Total liabilities, redeemable non-controlling interest and equity</b>	<b>\$ 3,357,393</b>	<b>\$ 2,664,693</b>

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

**GREENLIGHT CAPITAL RE, LTD.**  
**CONSOLIDATED STATEMENTS OF INCOME**

**Years ended December 31, 2017, 2016 and 2015**  
**(expressed in thousands of U.S. dollars, except per share and share amounts)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Revenues</b>			
Gross premiums written	\$ 692,651	\$ 536,072	\$ 502,124
Gross premiums ceded	(56,587)	(10,015)	(9,001)
Net premiums written	636,064	526,057	493,123
Change in net unearned premium reserves	(10,060)	(12,939)	(84,736)
Net premiums earned	626,004	513,118	408,387
Net investment income (loss) [net of related party expenses of \$19,863, \$24,543 and \$19,246]	20,231	76,183	(281,924)
Other income (expense), net	(560)	(935)	(3,413)
Total revenues	<u>645,675</u>	<u>588,366</u>	<u>123,050</u>
<b>Expenses</b>			
Loss and loss adjustment expenses incurred, net	502,404	380,815	317,097
Acquisition costs, net	161,740	134,534	116,207
General and administrative expenses	26,356	25,808	23,434
Total expenses	<u>690,500</u>	<u>541,157</u>	<u>456,738</u>
Income (loss) before income tax	(44,825)	47,209	(333,688)
Income tax (expense) benefit	451	(509)	1,755
Net income (loss) including non-controlling interest	(44,374)	46,700	(331,933)
Loss (income) attributable to non-controlling interest in related party joint venture	(578)	(1,819)	5,508
<b>Net income (loss)</b>	<u>\$ (44,952)</u>	<u>\$ 44,881</u>	<u>\$ (326,425)</u>
<b>Earnings (loss) per share</b>			
Basic	\$ (1.21)	\$ 1.20	\$ (8.90)
Diluted	\$ (1.21)	\$ 1.20	\$ (8.90)
<b>Weighted average number of ordinary shares used in the determination of earnings and loss per share</b>			
Basic	37,002,260	37,267,145	36,670,466
Diluted	37,002,260	37,340,018	36,670,466

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

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

Years ended December 31, 2017, 2016 and 2015  
(expressed in thousands of U.S. dollars)

	Ordinary share capital	Additional paid-in capital	Retained earnings	Shareholders' equity attributable to shareholders	Non- controlling interest in joint venture	Total equity
Balance at December 31, 2014	\$ 3,738	\$ 500,553	\$ 660,860	\$ 1,165,151	\$ 14,233	\$ 1,179,384
Issue of Class A ordinary shares, net of forfeitures	26	—	—	26	—	26
Repurchase of Class A ordinary shares	(61)	(8,483)	(9,148)	(17,692)	—	(17,692)
Share-based compensation expense, net of forfeitures	—	4,248	—	4,248	—	4,248
Short-swing sale profit from shareholder	—	83	—	83	—	83
Change in non-controlling interest in related party joint venture	—	—	—	—	(3,115)	(3,115)
Net income (loss)	—	—	(326,425)	(326,425)	—	(326,425)
Balance at December 31, 2015	\$ 3,703	\$ 496,401	\$ 325,287	\$ 825,391	\$ 11,118	\$ 836,509
Issue of Class A ordinary shares, net of forfeitures	34	—	—	34	—	34
Share-based compensation expense, net of forfeitures	—	3,936	—	3,936	—	3,936
Change in non-controlling interest in related party joint venture	—	—	—	—	443	443
Net income (loss)	—	—	44,881	44,881	—	44,881
Balance at December 31, 2016	\$ 3,737	\$ 500,337	\$ 370,168	\$ 874,242	\$ 11,561	\$ 885,803
Issue of Class A ordinary shares, net of forfeitures	13	—	—	13	—	13
Repurchase of Class A ordinary shares	(14)	(1,861)	(944)	(2,819)	—	(2,819)
Share-based compensation expense, net of forfeitures	—	4,840	—	4,840	—	4,840
Change in non-controlling interest in related party joint venture	—	—	—	—	1,372	1,372
Net income (loss)	—	—	(44,952)	(44,952)	—	(44,952)
Balance at December 31, 2017	\$ 3,736	\$ 503,316	\$ 324,272	\$ 831,324	\$ 12,933	\$ 844,257

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

**GREENLIGHT CAPITAL RE, LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended December 31, 2017, 2016 and 2015**  
**(expressed in thousands of U.S. dollars)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Cash provided by (used in) operating activities</b>			
Net income (loss)	\$ (44,952)	\$ 44,881	\$ (326,425)
Adjustments to reconcile net income or loss to net cash provided by (used in) operating activities			
Net change in unrealized gains and losses on investments and financial contracts	41,444	(209,993)	265,401
Net realized (gains) losses on investments and financial contracts	(87,618)	113,836	(22,227)
Foreign exchange (gains) losses on restricted cash and investments	5,292	3,094	6,225
Income (loss) attributable to total non-controlling interest in related party joint venture	578	1,819	(5,508)
Share-based compensation expense, net of forfeitures	4,853	3,970	4,274
Depreciation expense	368	390	405
<b>Net change in</b>			
Reinsurance balances receivable	(82,636)	(31,186)	(83,113)
Loss and loss adjustment expenses recoverable	(26,755)	664	(916)
Deferred acquisition costs, net	(1,328)	(1,199)	(25,403)
Unearned premiums ceded	(22,743)	874	776
Other assets	705	2,171	(1,791)
Loss and loss adjustment expense reserves	157,739	644	41,754
Unearned premium reserves	33,291	10,573	83,218
Reinsurance balances payable	102,643	23,089	7,524
Funds withheld	17,652	(1,216)	585
Other liabilities	(4,114)	1,802	(2,224)
Net cash provided by (used in) operating activities	<u>94,419</u>	<u>(35,787)</u>	<u>(57,445)</u>
<b>Investing activities</b>			
Purchases of investments, trading	(1,120,549)	(1,310,837)	(1,252,969)
Sales of investments, trading	1,036,665	1,470,118	1,388,162
Payments for financial contracts	(24,714)	(60,414)	(25,765)
Proceeds from financial contracts	82,789	20,426	7,002
Securities sold, not yet purchased	1,120,506	699,237	892,085
Dispositions of securities sold, not yet purchased	(1,253,176)	(792,970)	(1,068,891)
Change in due to prime brokers and other financial institutions	352,870	(76,623)	185,383
Change in restricted cash and cash equivalents, net	(308,241)	36,972	50,400
Change in notes receivable, net	5,237	(8,588)	2,279
Non-controlling interest contribution into (withdrawal from) related party joint venture, net	2,079	(7,756)	—
Net cash provided by (used in) investing activities	<u>(106,534)</u>	<u>(30,435)</u>	<u>177,686</u>
<b>Financing activities</b>			
Short-swing sale profit from shareholder	—	—	83
Repurchase of Class A ordinary shares	(2,819)	—	(17,692)
Net cash provided by (used in) financing activities	<u>(2,819)</u>	<u>—</u>	<u>(17,609)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	2,361	(6,082)	(2,500)
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(12,573)</u>	<u>(72,304)</u>	<u>100,132</u>
Cash and cash equivalents at beginning of the period	<u>39,858</u>	<u>112,162</u>	<u>12,030</u>
<b>Cash and cash equivalents at end of the period</b>	<u>\$ 27,285</u>	<u>\$ 39,858</u>	<u>\$ 112,162</u>
<b>Supplementary information</b>			
Interest paid in cash	\$ 10,062	\$ 7,823	\$ 21,959
Income tax paid in cash	—	—	—
Non-cash transfer to notes receivable	—	—	25,859

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



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

**Years ended December 31, 2017, 2016 and 2015**

**1. ORGANIZATION AND BASIS OF PRESENTATION**

Greenlight Capital Re, Ltd. (“GLRE”) was incorporated as an exempted company under the Companies Law of the Cayman Islands on July 13, 2004. GLRE’s principal wholly-owned subsidiary, Greenlight Reinsurance, Ltd. (“Greenlight Re”), provides global specialty, property and casualty reinsurance. Greenlight Re has a Class D insurer license issued in accordance with the terms of The Insurance Law, 2010 and underlying regulations thereto (the “Law”) and is subject to regulation by the Cayman Islands Monetary Authority (“CIMA”), in terms of the Law. Greenlight Re commenced underwriting in April 2006. Effective May 30, 2007, GLRE completed an initial public offering of 11,787,500 Class A ordinary shares at \$19.00 per share. Concurrently, 2,631,579 Class B ordinary shares of GLRE were sold at \$19.00 per share in a private placement offering. During 2008, Verdant Holding Company, Ltd. (“Verdant”), a wholly-owned subsidiary of GLRE, was incorporated in the state of Delaware. During 2010, GLRE established Greenlight Reinsurance Ireland, Designated Activity Company (“GRIL”), a wholly-owned reinsurance subsidiary based in Dublin, Ireland. GRIL is authorized as a non-life reinsurance undertaking in accordance with the provisions of the European Union (Insurance and Reinsurance) Regulations 2015 (“Irish Regulations”). GRIL provides multi-line property and casualty reinsurance capacity to the European broker market and provides GLRE with an additional platform to serve clients located in Europe and North America. As used herein, the “Company” refers collectively to GLRE and its consolidated subsidiaries.

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

These consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The consolidated financial statements include the accounts of GLRE and the consolidated financial statements of its wholly owned subsidiaries, Greenlight Re, GRIL and Verdant. All significant intercompany transactions and balances have been eliminated on consolidation.

**Reclassifications**

Prior to the year ended December 31, 2017, the Company presented the redeemable and non-redeemable portion of the non-controlling interest in the related party joint venture under the permanent equity section of the balance sheet. The United States Securities and Exchange Commission (“SEC”) guidance, which is applicable to SEC registrants, requires shares, that are not required to be accounted for in accordance with Financial Accounting Standards Board (“FASB”) ASC Topic *Distinguishing Liabilities from Equity*, and having redemption features that are not solely within the control of the issuer, to be classified outside of the permanent equity section and instead presented in the mezzanine section of the consolidated balance sheets.

At December 31, 2017, the Company has presented the redeemable non-controlling interest in the related party joint venture in the mezzanine section on the Company’s consolidated balance sheet in accordance with the SEC guidance noted above. The comparative consolidated balance sheet at December 31, 2016 and the consolidated statement of shareholders’ equity for the year ended December 31, 2016, have been reclassified to conform to the current period presentation of the redeemable non-controlling interest in the related party joint venture. The reclassification had no impact on shareholders’ equity attributable to shareholders or retained earnings. In addition, this change did not impact the consolidated statements of income, earnings per share or consolidated statement of cash flows. The Company has evaluated the effect of the change in presentation, both qualitatively and quantitatively, and concluded that it did not have a material impact on any previously filed annual or quarterly consolidated financial statements. See Note 13 for additional information regarding the non-controlling interests in the related party joint venture.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Use of Estimates**

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

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and certain short-term, highly liquid investments with original maturity dates of three months or less.

### **Restricted Cash and Cash Equivalents**

The Company is required to maintain certain cash in segregated accounts with prime brokers and derivative counterparties. The amount of restricted cash held by prime brokers is primarily used to support the liability created from securities sold, not yet purchased and derivatives. Additionally, restricted cash and cash equivalent balances are held to collateralize regulatory trusts and letters of credit issued to cedents (see Notes 4 and 6). The amount of cash encumbered varies depending on the market value of the securities sold, not yet purchased, and the collateral required by the cedents in the form of trust accounts and letters of credit. In addition, derivative counterparties require cash collateral to support the current value of any amounts that may be due to the counterparty based on the value of the underlying financial instrument.

### **Premium Revenue Recognition**

The Company accounts for reinsurance contracts in accordance with U.S. GAAP. In the event that a reinsurance contract does not transfer sufficient risk, deposit accounting is used and the contract is reported as a deposit liability. Similarly for ceded contracts that do not transfer sufficient risk, deposit accounting is used and the contract is reported as a deposit asset.

The Company writes excess of loss contracts as well as quota share contracts. The Company estimates the ultimate premiums for the entire contract period. These estimates are based on information received from the ceding companies and estimates from actuarial pricing models used by the Company. For excess of loss contracts, the total ultimate estimated premiums are recorded as premiums written at the inception of the contract. For quota share contracts, the premiums are recorded as written based on cession statements from cedents which typically are received monthly or quarterly depending on the 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.

Premium estimates are reviewed by management at least quarterly. Such review includes a comparison of actual reported premiums to expected ultimate premiums along with a review of the aging and collection of premium estimates. Based on management's review, the appropriateness of the premium estimates is evaluated, and any adjustments to these estimates are recorded in the period in which they are determined. 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. A significant portion of amounts included in reinsurance balances receivable represent estimated premiums written, net of commissions and brokerage, and are not currently due based on the terms of the underlying contracts.

Certain contracts allow for reinstatement premiums in the event of a full limit loss prior to the expiry of a contract. A reinstatement premium is not due until there is a loss event and, therefore, in accordance with U.S. GAAP, the Company records a reinstatement premium as written only in the event that a client incurs a loss on the contract and the contract allows for a reinstatement of coverage upon payment of an additional premium. For catastrophe contracts which contractually require the payment of a reinstatement premium upon the occurrence of a loss, the reinstatement premiums are earned over the original contract period. Reinstatement premiums that are contractually calculated on a pro-rata basis of the original contract period, are

earned over the remaining coverage period. For additional premiums which are due on a contract that has no remaining coverage period, the additional premiums are earned in full when due.

Certain contracts may provide for a penalty to be paid if the contract is terminated and canceled prior to its expiration term. Cancellation penalties are recognized in the period the notice of cancellation is received and are recorded in the consolidated statements of income under “other income (expense), net”.

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

### **Reinsurance Premiums Ceded**

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

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

### **Deferred Acquisition Costs**

Policy acquisition costs, such as commission and brokerage costs, relate directly to, and vary with, the writing of reinsurance contracts. Acquisition costs relating solely to bound contracts are deferred subject to ultimate recoverability and are amortized over the related contract term. The Company evaluates the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment income is greater than the expected future claims and expenses. If a loss is probable on the unexpired portion of policies in force, a premium deficiency loss is recognized. At December 31, 2017 and 2016, the deferred acquisition costs were considered fully recoverable and no premium deficiency loss was recorded.

Acquisition costs also include profit commissions which are expensed when incurred. Profit commissions are calculated and accrued based on the expected loss experience for contracts and recorded when the current loss estimate indicates that a profit commission is probable under the contract terms. As of December 31, 2017, \$11.9 million (2016: \$15.2 million) of profit commission reserves were included in reinsurance balances payable on the consolidated balance sheets. For the year ended December 31, 2017, \$2.0 million, (2016: \$6.5 million, 2015: \$7.5 million respectively) of net profit commission expense was included in acquisition costs in the consolidated statements of income.

### **Funds Withheld**

Funds withheld include reinsurance balances retained by the Company on retroceded contracts as collateral in accordance with the contract terms. Any interest expense that the Company incurs while these funds are withheld, are included under net investment income (loss) in the consolidated statements of income.

### **Loss and Loss Adjustment Expense Reserves and Recoverable**

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

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

Consideration paid by the Company for retroactive reinsurance that meets the conditions for reinsurance accounting (e.g. loss portfolio transfers) are reported as loss and loss adjustment expenses recoverable to the extent those amounts do not exceed the associated liabilities. If the amounts paid for retroactive reinsurance exceed the liabilities, the Company increases the related liabilities at the time the reinsurance contract is effective, and the excess is charged to net income as losses incurred. If the liabilities exceed the amounts paid, the recoverable balance is increased to reflect the difference, and the resulting gain is deferred and amortized over the estimated loss payout period. Changes in the estimated amount of liabilities relating to the underlying reinsured contracts are recognized in net income in the period of the change.

### **Notes Receivable**

Notes receivable include promissory notes receivable from third party entities. These notes are recorded at cost along with accrued interest, if any, which approximates the fair value. Interest income and realized gains or losses on sale of notes receivable are included under net investment income (loss) in the consolidated statements of income.

The Company regularly reviews all notes receivable individually for impairment and records valuation allowance provisions for uncollectible and non-performing notes. The Company places notes on non-accrual status when the recorded value of the note is not considered impaired but there is uncertainty as to the collection of interest in accordance with the terms of the note. For notes receivable placed on non-accrual status, the notes are recorded excluding any accrued interest amount. The Company resumes accrual of interest on a note when none of the principal or interest remains past due, and the Company expects to collect the remaining contractual principal and interest. Interest collected on notes that are placed on non-accrual status is treated on a cash-basis and recorded as interest income when collected, provided that the recorded value of the note is deemed to be fully collectible. Where doubt exists as to the collectability of the remaining recorded value of the notes placed on non-accrual status, any payments received are applied to reduce the recorded value of the notes.

At December 31, 2017, \$14.4 million of notes receivable (net of any valuation allowance) were on non-accrual status (2016: \$18.6 million) and any payments received were applied to reduce the recorded value of the notes.

At December 31, 2017 and 2016, \$0.1 million and nil, respectively, of accrued interest was included in the notes receivable balance. Based on management's assessment, the recorded values of the notes receivable, net of valuation allowance, at December 31, 2017 and 2016, were expected to be fully collectible.

### **Deposit Assets and Liabilities**

In accordance with U.S. GAAP, deposit accounting is used in the event that a reinsurance contract does not transfer sufficient insurance risk. The deposit method of accounting requires an asset or liability to be recognized based on the consideration paid or received. The deposit asset or liability balance is subsequently adjusted using the interest method with a corresponding income or expense recorded in the consolidated statements of income as other income or expense. The Company's deposit assets and liabilities are recorded in the consolidated balance sheets under reinsurance balances receivable and reinsurance balances payable, respectively. At December 31, 2017, deposit assets and deposit liabilities were \$19.4 million and \$28.1 million, respectively. For the year ended December 31, 2017, interest expense and interest income on deposit accounted contracts were \$0.6 million and \$0.2 million, respectively. At December 31, 2016 there were no material deposit assets or deposit liabilities.

## Financial Instruments

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

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

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

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

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

## Derivative Financial Instruments

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

### *Financial Contracts*

The Company enters into financial contracts with counterparties as part of its investment strategy. Financial contracts, which include total return swaps, credit default swaps ("CDS"), futures, options, currency forwards and other derivative

instruments, are recorded at their fair value with any unrealized gains and losses included in net investment income (loss) in the consolidated statements of income. Financial contracts receivable represents derivative contracts whereby, based upon the contract's current fair value, the Company will be entitled to receive payments upon settlement of the contract. Financial contracts payable represents derivative contracts whereby, based upon 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 consolidated balance sheets as financial contracts receivable and financial contracts payable, are derivative financial instruments whereby the Company is either entitled to receive or obligated to pay the product of a notional amount multiplied by the movement in an underlying security, which the Company may not own, over a specified time frame. In addition, the Company may also be obligated to pay or receive other payments based on interest rates, dividend payments and receipts, or foreign exchange movements during a specified period. The Company measures its rights or obligations to the counterparty based on the fair value movements of the underlying security together with any other payments due. These contracts are carried at fair value, based on observable inputs (Level 2 inputs) with the resultant unrealized gains and losses reflected in net investment income (loss) in the consolidated statements of income. Additionally, any changes in the value of amounts received or paid on swap contracts are reported as a gain or loss in net investment income (loss) in the consolidated statements of income.

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

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

### **Share-Based Compensation**

The Company has established a stock incentive plan for directors, employees and consultants.

U.S. GAAP requires the Company to recognize share-based compensation transactions using the fair value at the grant date of the award. The Company measures compensation for restricted shares and restricted stock units ("RSUs") based on the price of the Company's common shares at the grant date and the expense is recognized on a straight line basis over the vesting period, net of any estimated or expected forfeitures. Effective from the year ended December 31, 2016, the forfeiture rate is estimated based on the Company's historical actual forfeitures relating to restricted shares and RSUs granted to employees. The forfeiture rate is reviewed annually and adjusted as necessary. No forfeiture rate is used for restricted shares granted to directors which vest over a twelve-month period.

Determining the fair value of share purchase options at the grant date requires significant estimation and judgment. The Company uses an option-pricing model (Black-Scholes option pricing model) to assist in the calculation of fair value for share purchase options. The model requires estimation of various inputs such as estimated term, forfeiture and dividend rates and expected volatility. In determining the grant date fair value, the Company uses the full life of the options, ten years, as the estimated term of the options, and has assumed no forfeitures and no dividends paid during the life of the options. The estimate

of expected volatility is based on the daily historical trading data of the Company's Class A ordinary shares from the date that these shares commenced trading (May 24, 2007) to the grant date.

For share purchase options issued under the employee stock incentive plan, compensation cost is calculated and expensed over the vesting periods on a graded vesting basis (see Note 10).

If actual results differ significantly from these estimates and assumptions, particularly in relation to the Company's estimation of volatility which requires the most judgment, share-based compensation expense, primarily with respect to future share-based awards, could be materially impacted.

### **Foreign Exchange**

The reporting and functional currency of the Company and all its subsidiaries is the U.S. dollar. Transactions in foreign currencies are recorded in U.S. dollars at the exchange rates in effect on the transaction date. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the exchange rate in effect at the balance sheet date and translation exchange gains and losses, if any, are included in "other income (expense), net" in the consolidated statements of income.

### **Other Assets**

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

### **Other Liabilities**

Other liabilities consist primarily of dividends payable on securities sold, not yet purchased, and employee bonus accruals. At December 31, 2017, other liabilities included accrued bonus of \$6.4 million (2016: \$9.0 million). Under the Company's bonus program, each employee's target bonus consists of two components: a discretionary component based on a qualitative assessment of each employee's performance and a quantitative component based on the return on deployed equity ("RODE") for each underwriting year relating to reinsurance operations. The qualitative portion of an employee's annual bonus is accrued at each employee's target amount, which may differ significantly from the actual amount approved and awarded annually by the Compensation Committee. The quantitative portion of each employee's annual bonus is accrued based on the expected RODE for each underwriting year and adjusted for changes in the expected RODE 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, with the approval of the Compensation Committee, in annual installments 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.

Also included in other liabilities are dividends payable on investments and accruals for professional fees and other general expenses.

### **Non-controlling Interest**

Non-controlling interest in joint venture on the consolidated balance sheets represents DME Advisors, LLC's ("DME") share of assets in the joint venture whereby DME is a participant in the joint venture as disclosed in Note 13. DME's share of investment income or loss is included in the consolidated statements of income as income attributable to non-controlling interest in joint venture.

### **Comprehensive Income (Loss)**

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

## Earnings (Loss) Per Share

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

	Year ended December 31		
	2017	2016	2015
Weighted average shares outstanding - basic	37,002,260	37,267,145	36,670,466
Effect of dilutive employee and director share-based awards	—	72,873	—
Weighted average shares outstanding - diluted	37,002,260	37,340,018	36,670,466
Anti-dilutive stock options outstanding	358,741	435,991	211,821
Participating securities excluded from calculation of loss per share	331,510	—	307,013

## Taxation

Under current Cayman Islands law, no corporate entity, including GLRE and Greenlight Re, is obligated to pay taxes in the Cayman Islands on either income or capital gains. The Company has an undertaking from the Governor-in-Cabinet of the Cayman Islands, pursuant to the provisions of the Tax Concessions Law, as amended, that, in the event that the Cayman Islands enacts any legislation that imposes tax on profits, income, gains or appreciations, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to GLRE, Greenlight Re nor their respective operations, or to the Class A or Class B ordinary shares or related obligations, until February 1, 2025.

Verdant is incorporated in Delaware and therefore is subject to taxes in accordance with the U.S. federal rates and regulations prescribed by the U.S. Internal Revenue Service (“IRS”). Verdant’s taxable income is generally expected to be taxed at a marginal rate of 21% (2016: 35%). Verdant’s tax years 2014 and beyond, remain open and subject to examination by the IRS.

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

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

## Segment Information

Under U.S. GAAP, operating segments are based on the internal information that management uses for allocating resources and assessing performance as the source of the Company’s reportable segments.

The Company manages its business on the basis of one operating segment, Property and Casualty Reinsurance, in accordance with the qualitative and quantitative criteria established by U.S. GAAP.



## Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The new guidance is intended to improve the recognition and measurement of financial instruments. ASU 2016-01, among other things, requires equity investments to be measured at fair value with changes in fair value recognized in net income or loss, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset. ASU 2016-01 affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is in the process of evaluating the impact of adopting ASU 2016-01 on the Company’s consolidated financial statements. However, the adoption of this guidance is not expected to have a significant impact on the Company’s net income or loss or retained earnings since the Company’s investments are currently classified as “trading” and the unrealized gains and losses are already recognized in net income or loss.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for any organization in any interim or annual period. The Company currently has two operating leases for its office spaces as disclosed in Note 14 of the consolidated financial statements. The Company is in the process of evaluating the impact of adopting ASU 2016-02 on the Company’s consolidated financial statements and anticipates implementing ASU 2016-02 during the first quarter of fiscal year 2019.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurements of Credit Losses on Financial Instruments” (“ASU 2016-13”). ASU 2016-13 amends the guidance on reporting credit losses and affects loans, debt securities, trade receivables, reinsurance recoverables and other financial assets that have the contractual right to receive cash. The amendments are effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted for any organization for annual periods beginning after December 15, 2018 and interim periods within those annual periods. The Company is in the process of evaluating the impact of the requirements of ASU 2016-13 on the Company’s consolidated financial statements and anticipates implementing ASU 2016-13 during the first quarter of fiscal year 2020.

In November 2016, the FASB issued ASU 2016-18, “Statements of Cash Flows - Restricted Cash (Topic 230)” (“ASU 2016-18”). ASU 2016-18 requires restricted cash and cash equivalents to be included with cash and cash equivalents in the statement of cash flows and disclose the nature of the restrictions on cash and cash equivalents. ASU 2016-18 is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company currently presents changes in restricted cash and cash equivalents under investing activities in the consolidated statements of cash flows. Upon adoption of ASU 2016-18, the Company will amend the presentation in the statement of cash flows to include the restricted cash and cash equivalents with cash and cash equivalents in the consolidated statements of cash flows and will retrospectively reclassify all periods presented.

In May 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation - Scope of Modification Accounting (Topic 718)” (“ASU 2017-09”). ASU 2017-09 provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. ASU 2017-09 is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. ASU 2017-09 will impact the Company to the extent that there are changes to terms and conditions of the Company’s share-based payment awards after the adoption date. The Company does not anticipate making modifications to its share-based payment awards so the adoption of ASU 2017-09 is not expected to have a material impact on the Company’s consolidated financial statements.

The FASB has issued ASU No. 2014-09, "Revenue from Contracts with Customers", and related amendments, ASU 2015-14, ASU 2016-10, ASU 2016-12, ASU 2016-20, ASU 2017-05 and ASU 2017-13, (collectively, "Topic 606"). Topic 606 creates a new comprehensive revenue recognition standard that will serve as a single source of revenue guidance for all companies that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of non-financial assets, unless those contracts are within the scope of other standards, such as insurance contracts. Topic 606 becomes effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company will adopt Topic 606 on the effective date and since all of the Company's revenues relate to reinsurance contracts and investment income, the adoption of Topic 606 is not expected to have a material impact on the Company's revenues.

### 3. FINANCIAL INSTRUMENTS

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

The Company is exposed to credit risk in relation to counterparties that may default on their obligations to the Company. The amount of counterparty credit risk predominantly relates to the value of financial contracts receivable and assets held at counterparties. The Company mitigates its counterparty credit risk by using several counterparties, which decreases the likelihood of any significant concentration of credit risk with any one counterparty. The Company mitigates its exposure to counterparty risk by obtaining collateral from its counterparties based on the value of the financial contracts receivable. 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 obligations.

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

Purchases and sales of investments are disclosed in the consolidated statements of cash flows. Net realized gains on the sale of investments, financial contracts, and investments sold, not yet purchased during 2017 were \$87.6 million (2016: \$113.8 million losses, 2015: \$22.2 million gains). Gross realized gains during 2017 were \$267.9 million (2016: \$188.7 million, 2015: \$350.5 million) and gross realized losses were \$180.3 million (2016: \$302.5 million, 2015: \$328.3 million). For the year ended December 31, 2017, included in net investment income in the consolidated statements of income were \$41.4 million of net losses (2016: \$210.0 million of net gains, 2015: \$265.4 million of net losses) relating to change in unrealized gains and losses on trading securities still held at the balance sheet date.

As of December 31, 2017, cash and investments with a fair value of \$200.4 million (2016: \$310.9 million) have been pledged as security against letters of credit issued, and \$377.9 million (2016: \$86.4 million) have been pledged as security relating to regulatory trusts.

As of December 31, 2017, the Company's investments in General Motors, Brighthouse Financial Inc, gold and gold derivatives, Bayer AG and Mylan NV were in excess of 10% of the Company's total shareholders' equity, with fair values of \$205.5 million, or 24.3%, \$132.4 million or 15.7%, \$121.5 million, or 14.4%, \$103.6 million or 12.3% and \$84.8 million or 10.0%, respectively, of total shareholders' equity.

As of December 31, 2016, the Company's investment in gold and gold derivatives and General Motors were the only investments in excess of 10% of the Company's total shareholders' equity, with fair values of \$137.3 million, or 15.5%, and \$92.9 million, or 10.5%, respectively, of total shareholders' equity.

### ***Fair Value Hierarchy***

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

The following table presents the Company's investments, categorized by the level of the fair value hierarchy as of December 31, 2017:

<b>Description</b>	<b>Fair value measurements as of December 31, 2017</b>			
	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
	(\$ in thousands)			
<b>Assets:</b>				
Debt instruments	\$ —	\$ 6,300	\$ 880	\$ 7,180
Listed equity securities	1,181,150	22,522	—	1,203,672
Commodities	121,502	—	—	121,502
Private and unlisted equity securities	—	—	6,108	6,108
	<u>\$ 1,302,652</u>	<u>\$ 28,822</u>	<u>\$ 6,988</u>	<u>\$ 1,338,462</u>
Unlisted equity funds measured at net asset value <sup>(1)</sup>				24,522
Total investments				<u>\$ 1,362,984</u>
Financial contracts receivable	\$ 22	\$ 12,871	\$ —	\$ 12,893
<b>Liabilities:</b>				
Listed equity securities, sold not yet purchased	\$ (812,652)	\$ —	\$ —	\$ (812,652)
Debt instruments, sold not yet purchased	—	(100,145)	—	(100,145)
Total securities sold, not yet purchased	<u>\$ (812,652)</u>	<u>\$ (100,145)</u>	<u>\$ —</u>	<u>\$ (912,797)</u>
Financial contracts payable	\$ —	\$ (22,222)	\$ —	\$ (22,222)

<sup>(1)</sup> Investments measured at fair value using the net asset value practical expedient have not been classified in the fair value hierarchy. The fair value amounts are presented in the above table to facilitate reconciliation to the consolidated balance sheets.

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

<b>Fair value measurements as of December 31, 2016</b>				
<b>Description</b>	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
(\$ in thousands)				
<b>Assets:</b>				
Debt instruments	\$ —	\$ 21,819	\$ 654	\$ 22,473
Listed equity securities	823,421	20,580	—	844,001
Commodities	137,296	—	—	137,296
Private and unlisted equity securities	—	—	6,109	6,109
	<u>\$ 960,717</u>	<u>\$ 42,399</u>	<u>\$ 6,763</u>	<u>\$ 1,009,879</u>
Unlisted equity funds measured at net asset value <sup>(1)</sup>				12,658
Total investments				<u>\$ 1,022,537</u>
Financial contracts receivable	\$ 20	\$ 76,361	\$ —	\$ 76,381
<b>Liabilities:</b>				
Listed equity securities, sold not yet purchased	\$ (770,267)	\$ —	\$ —	\$ (770,267)
Debt instruments, sold not yet purchased	—	(89,635)	—	(89,635)
Total securities sold, not yet purchased	<u>\$ (770,267)</u>	<u>\$ (89,635)</u>	<u>\$ —</u>	<u>\$ (859,902)</u>
Financial contracts payable	\$ —	\$ (2,237)	\$ —	\$ (2,237)

<sup>(1)</sup> Investments measured at fair value using the net asset value practical expedient have not been classified in the fair value hierarchy. The fair value amounts are presented in the above table to facilitate reconciliation to the consolidated balance sheets.

The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2017:

<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>				
<b>Year ended December 31, 2017</b>				
<b>Assets</b>				
	<b>Debt instruments</b>	<b>Private and unlisted equity securities</b>	<b>Total</b>	
(\$ in thousands)				
Beginning balance	\$ 654	\$ 6,109	\$	6,763
Purchases	—	1,750		1,750
Sales	—	—		—
Total realized and unrealized gains (losses) and amortization included in earnings, net	226	17		243
Transfers into Level 3	—	—		—
Transfers out of Level 3	—	(1,768)		(1,768)
Ending balance	<u>\$ 880</u>	<u>\$ 6,108</u>	<u>\$</u>	<u>6,988</u>

During the year ended December 31, 2017, \$1.8 million of the private equity securities were transferred from Level 3 to Level 1 as these securities commenced trading on a listed exchange during the year and the fair value was determined based on the last traded price on an active market. There were no other transfers between Level 1, Level 2 or Level 3 during the year ended December 31, 2017.

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

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>		
	<b>Year ended December 31, 2016</b>		
	<b>Assets</b>		
	<b>Debt instruments</b>	<b>Private and unlisted equity securities</b>	<b>Total</b>
	<b>(\$ in thousands)</b>		
Beginning balance	\$ 505	\$ 8,452	\$ 8,957
Purchases	—	—	—
Sales	—	(2,539)	(2,539)
Total realized and unrealized gains (losses) and amortization included in earnings, net	149	196	345
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Ending balance	<u>\$ 654</u>	<u>\$ 6,109</u>	<u>\$ 6,763</u>

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

As of December 31, 2017, the Company held investments in unlisted equity funds of \$24.5 million (December 31, 2016: \$12.7 million) with fair values measured using the unadjusted net asset values and performance estimates as reported by the managers of these funds as a practical expedient. Some of these net asset values were reported from periods prior to December 31, 2017. The unlisted equity funds have varying lock-up periods and, as of December 31, 2017, all of the funds had redemption restrictions. The redemption restrictions have been in place since inception of the investments. One of the unlisted equity funds may be redeemed after December 31, 2018 while the redemption restrictions for the other funds are not expected to lapse in the near future. As of December 31, 2017, the Company had \$6.5 million (December 31, 2016: \$9.2 million) of unfunded commitments relating to unlisted equity funds whose fair values are determined based on unadjusted net asset values reported by the managers of these funds. These commitments are included in the amounts presented in the schedule of commitments and contingencies in Note 14 of these consolidated financial statements.

For the year ended December 31, 2017, included in net investment income in the consolidated statements of income were net realized losses relating to Level 3 securities of nil (2016: net realized losses of \$1.4 million).

For Level 3 securities still held as of the reporting date, the change in net unrealized gains for the year ended December 31, 2017 of \$0.2 million (2016: net unrealized gains \$0.3 million), were included in net investment income (loss) in the consolidated statements of income.

## Investments

### Debt instruments, trading

At December 31, 2017, the following investments were included in debt instruments:

	<b>Cost/ amortized cost</b>	<b>Unrealized gains</b>	<b>Unrealized losses</b>	<b>Fair value</b>
	(\$ in thousands)			
Corporate debt – U.S.	\$ 8,508	\$ —	\$ (7,186)	\$ 1,322
Corporate debt – Non U.S.	2,109	—	(2,057)	52
Sovereign debt – Non U.S.	5,831	—	(25)	5,806
Total debt instruments	<u>\$ 16,448</u>	<u>\$ —</u>	<u>\$ (9,268)</u>	<u>\$ 7,180</u>

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

	<b>Cost/ amortized cost</b>	<b>Unrealized gains</b>	<b>Unrealized losses</b>	<b>Fair value</b>
	(\$ in thousands)			
Corporate debt – U.S.	\$ 21,294	\$ 6,509	\$ (5,331)	\$ 22,472
Corporate debt – Non U.S.	2,109	—	(2,108)	1
Total debt instruments	<u>\$ 23,403</u>	<u>\$ 6,509</u>	<u>\$ (7,439)</u>	<u>\$ 22,473</u>

The maturity distribution for debt instruments held at December 31, 2017 and 2016, was as follows:

	<b>2017</b>		<b>2016</b>	
	<b>Cost/ amortized cost</b>	<b>Fair value</b>	<b>Cost/ amortized cost</b>	<b>Fair value</b>
	(\$ in thousands)			
Within one year	\$ 7,557	\$ 441	\$ —	\$ —
From one to five years	—	—	17,803	19,492
From five to ten years	2,109	52	4,649	2,327
More than ten years	6,782	6,687	951	654
	<u>\$ 16,448</u>	<u>\$ 7,180</u>	<u>\$ 23,403</u>	<u>\$ 22,473</u>

### Equity securities, trading

At December 31, 2017, the following long positions were included in equity securities, trading:

	<b>Cost</b>	<b>Unrealized gains</b>	<b>Unrealized losses</b>	<b>Fair value</b>
	(\$ in thousands)			
Equities – listed	\$ 1,014,426	\$ 208,350	\$ (19,104)	\$ 1,203,672
Total equity securities	<u>\$ 1,014,426</u>	<u>\$ 208,350</u>	<u>\$ (19,104)</u>	<u>\$ 1,203,672</u>

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

	<b>Cost</b>	<b>Unrealized gains</b>	<b>Unrealized losses</b>	<b>Fair value</b>
	<b>(\$ in thousands)</b>			
Equities – listed	\$ 753,813	\$ 115,379	\$ (40,706)	\$ 828,486
Exchange traded funds	15,056	459	—	15,515
<b>Total equity securities</b>	<b>\$ 768,869</b>	<b>\$ 115,838</b>	<b>\$ (40,706)</b>	<b>\$ 844,001</b>

*Other Investments*

“Other investments” include commodities and private securities and unlisted funds. As of December 31, 2017 and 2016, all commodities were comprised of gold bullion.

At December 31, 2017, the following securities were included in other investments:

	<b>Cost</b>	<b>Unrealized gains</b>	<b>Unrealized losses</b>	<b>Fair value</b>
	<b>(\$ in thousands)</b>			
Commodities	\$ 101,184	\$ 20,318	\$ —	\$ 121,502
Private and unlisted equity funds	25,316	5,314	—	30,630
	<b>\$ 126,500</b>	<b>\$ 25,632</b>	<b>\$ —</b>	<b>\$ 152,132</b>

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

	<b>Cost</b>	<b>Unrealized gains</b>	<b>Unrealized losses</b>	<b>Fair value</b>
	<b>(\$ in thousands)</b>			
Commodities	\$ 130,671	\$ 6,625	\$ —	\$ 137,296
Private and unlisted equity funds	14,418	4,375	(26)	18,767
	<b>\$ 145,089</b>	<b>\$ 11,000</b>	<b>\$ (26)</b>	<b>\$ 156,063</b>

*Investments in Securities Sold, Not Yet Purchased*

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

At December 31, 2017, the following securities were included in investments in securities sold, not yet purchased:

	<u>Proceeds</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Fair value</u>
	(\$ in thousands)			
Equities – listed	\$ (643,148)	\$ 17,541	\$ (187,045)	\$ (812,652)
Sovereign debt – Non U.S.	(96,231)	—	(3,914)	(100,145)
	<u>\$ (739,379)</u>	<u>\$ 17,541</u>	<u>\$ (190,959)</u>	<u>\$ (912,797)</u>

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

	<u>Proceeds</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Fair value</u>
	(\$ in thousands)			
Equities – listed	\$ (690,270)	\$ 30,768	\$ (110,765)	\$ (770,267)
Sovereign debt – Non U.S.	(96,230)	6,595	—	(89,635)
	<u>\$ (786,500)</u>	<u>\$ 37,363</u>	<u>\$ (110,765)</u>	<u>\$ (859,902)</u>

### *Financial Contracts*

As of December 31, 2017 and 2016, 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 financial contracts, the Company is either entitled to receive or is obligated to make payments, which are based on the product of a formula contained within each contract that includes the change in the fair value of the underlying or reference security.

At December 31, 2017, the fair values of financial contracts outstanding were as follows:

<u>Financial Contracts</u>	<u>Listing currency<sup>(1)</sup></u>	<u>Notional amount of underlying instruments</u>	<u>Fair value of net assets (obligations) on financial contracts</u>
		(\$ in thousands)	
<b>Financial contracts receivable</b>			
Call options	USD	2,656	\$ 91
Commodity Swaps	USD	17,833	2,142
Forwards	KRW	41,379	801
Futures	USD	5,874	12
Interest rate swaps	JPY	21,269	479
Put options <sup>(2)</sup>	USD	155	1
Total return swaps – equities	EUR/GBP/USD	34,965	9,357
Warrants and rights on listed equities	EUR/USD	29	10
<b>Total financial contracts receivable, at fair value</b>			<u>\$ 12,893</u>
<b>Financial contracts payable</b>			
Commodity Swaps	USD	26,795	\$ (353)
Put options	USD	130	(14)
Total return swaps – equities	EUR/GBP/KRW/RO N/USD	60,663	(21,855)
<b>Total financial contracts payable, at fair value</b>			<u>\$ (22,222)</u>



<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 Chinese Yuan, denominated in U.S. dollars.

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

Financial Contracts	Listing currency <sup>(1)</sup>	Notional amount of underlying instruments	Fair value of net assets (obligations) on financial contracts
(\$ in thousands)			
<b>Financial contracts receivable</b>			
Call options	USD	134,495	\$ 26,508
Commodity Swaps	USD	82,009	13,506
Interest rate swaps	JPY	20,490	218
Put options <sup>(2)</sup>	USD	115,481	6,703
Total return swaps – equities	EUR/GBP/USD	100,199	29,413
Warrants and rights on listed equities	EUR/USD	67	33
<b>Total financial contracts receivable, at fair value</b>			<b>\$ 76,381</b>
<b>Financial contracts payable</b>			
Forwards	KRW	6,880	(118)
Put options	USD	815	(172)
Total return swaps – equities	EUR/GBP/KRW/RO N/USD	31,257	(1,947)
<b>Total financial contracts payable, at fair value</b>			<b>\$ (2,237)</b>

<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.

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer, a specified underlying security at a specified price on or before a specified date. The Company enters into option contracts to meet certain investment objectives. For exchange traded option contracts, the exchange acts as the counterparty to specific transactions and therefore bears the risk of delivery to and from counterparties of specific positions.

As of December 31, 2017, the Company held no OTC put options (long) (December 31, 2016: \$6.7 million) and \$0.1 million OTC call options (long) (December 31, 2016: \$22.4 million).

During the years ended December 31, 2017, 2016 and 2015, the Company reported gains and losses on derivatives as follows:

Derivatives not designated as hedging instruments	Location of gains and losses on derivatives recognized in income	Gain (loss) on derivatives recognized in income		
		Year ended December 31		
		2017	2016	2015
		(\$ in thousands)		
Commodity swaps	Net investment income (loss)	\$ (9,293)	\$ 10,474	\$ (12,061)
Credit default swaps, purchased – corporate debt	Net investment income (loss)	—	—	(156)
Credit default swaps, purchased – sovereign debt	Net investment income (loss)	—	—	(90)
Forwards	Net investment income (loss)	2,507	(302)	1,009
Futures	Net investment income (loss)	(399)	376	(952)
Interest rate swaps	Net investment income (loss)	136	218	(706)
Options, warrants, and rights	Net investment income (loss)	(18,455)	10,261	(13,955)
Total return swaps – equities	Net investment income (loss)	2,281	28,612	(12,590)
Weather derivative swap	Other income (expense), net	—	—	(2,340)
Total		<u>\$ (23,223)</u>	<u>\$ 49,639</u>	<u>\$ (41,841)</u>

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

For the year ended December 31, 2017, the Company's volume of derivative activities (based on notional amounts) was as follows:

Derivatives not designated as hedging instruments (notional amounts)	Year ended December 31, 2017	
	Entered	Exited
	(\$ in thousands)	
Commodity swaps	\$ 2,025	\$ 41,830
Forwards	34,652	1,739
Futures	38,207	32,537
Options, warrants and rights <sup>(1)</sup>	950,811	133,407
Total return swaps	258,874	355,446
Total	<u>\$ 1,284,569</u>	<u>\$ 564,959</u>

<sup>(1)</sup> Exited amount excludes derivatives which expired or were exercised during the period.

For the year ended December 31, 2016, the Company's volume of derivative activities (based on notional amounts) was as follows:

Derivatives not designated as hedging instruments (notional amounts)	Year ended December 31, 2016	
	Entered	Exited
	(\$ in thousands)	
Commodity swaps	\$ 141,534	\$ 100,045
Forwards	6,880	3,128
Futures	1,966,368	1,988,782
Interest rate swaps	20,490	—
Options, warrants and rights <sup>(1)</sup>	462,429	366,285
Total return swaps	86,688	59,810
<b>Total</b>	<b>\$ 2,684,389</b>	<b>\$ 2,518,050</b>

<sup>(1)</sup> Exited amount excludes derivatives which expired or were exercised during the period.

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

As of December 31, 2017, the gross and net amounts of derivative instruments and the cash collateral applicable to derivative instruments were as follows:

December 31, 2017	(i)	(ii)	(iii) = (i) - (ii)	(iv) Gross amounts not offset in the balance sheet		(v) = (iii) + (iv)
Description	Gross amounts of recognized assets (liabilities)	Gross amounts offset in the balance	Net amounts of assets (liabilities) presented in the balance	Financial instruments available for offset	Cash collateral (received) pledged	Net amount of asset (liability)
	(\$ in thousands)					
Financial contracts receivable	\$ 12,893	\$ —	\$ 12,893	\$ (5,128)	\$ (1,336)	\$ 6,429
Financial contracts payable	(22,222)	—	(22,222)	5,128	17,094	—

As of December 31, 2016, the gross and net amounts of derivative instruments and the cash collateral applicable to derivative instruments were as follows:

December 31, 2016	(i)	(ii)	(iii) = (i) - (ii)	(iv) Gross amounts not offset in the balance sheet		(v) = (iii) + (iv)
Description	Gross amounts of recognized assets (liabilities)	Gross amounts offset in the balance	Net amounts of assets (liabilities) presented in the balance	Financial instruments available for offset	Cash collateral (received) pledged	Net amount of asset (liability)
	(\$ in thousands)					
Financial contracts receivable	\$ 76,381	\$ —	\$ 76,381	\$ (938)	\$ (44,572)	\$ 30,871
Financial contracts payable	(2,237)	—	(2,237)	938	1,299	—

#### 4. DUE TO PRIME BROKERS AND OTHER FINANCIAL INSTITUTIONS

As of December 31, 2017, the amount due to prime brokers is comprised of margin-borrowing from prime brokers and custodians relating to investments purchased on margin as well as margin-borrowing for providing collateral to support some of the Company's outstanding letters of credit and trust accounts (see Notes 6 and 14). Under term margin agreements with prime brokers and revolving credit facilities with custodians and certain letter of credit facility agreements, the Company pledges certain investment securities to borrow cash. The cash borrowed under letter of credit facility agreements is placed in a custodial account in the name of the Company and this custodial account provides collateral for any letters of credit issued. Similarly for the trust accounts, the Company may borrow cash from prime brokers or custodians which is placed in a trust account for the benefit of the cedent. Since there is no legal right of offset, the Company's liability for the cash borrowed from the prime brokers and custodians is included on the consolidated balance sheets as due to prime brokers and other financial institutions while the cash held in the custodial account and trust accounts are included on the consolidated balance sheets as restricted cash and cash equivalents.

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<b>(\$ in thousands)</b>	
Due to Prime Brokers	\$ 647,700	\$ 319,830
Due to Other Financial Institutions	25,000	—
	<u>\$ 672,700</u>	<u>\$ 319,830</u>

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

#### 5. CASH AND CASH EQUIVALENTS

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<b>(\$ in thousands)</b>	
Cash at banks	\$ 27,239	\$ 39,368
Cash held with brokers	46	490
Total cash and cash equivalents	<u>\$ 27,285</u>	<u>\$ 39,858</u>

Due to the short term nature of cash and cash equivalents, management believes the above noted carrying values approximate their fair value. Cash at banks include cash held at non-U.S. financial institutions which are not insured by the FDIC or any other deposit insurance programs.

#### 6. 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 and the amount of cash encumbered varies depending on the market value of the securities sold, not yet purchased. Swap counterparties also 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.

Restricted cash and cash equivalents also include amounts held by the Company to provide collateral required by the cedents in the form of trust accounts and letters of credit (see Notes 4 and 14). As of December 31, 2017 and 2016, the restricted cash and cash equivalents were comprised of the following:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<b>(\$ in thousands)</b>	
Cash held by prime brokers relating to securities sold, not yet purchased	\$ 912,796	\$ 859,901
Cash collateral relating to letters of credit issued	173,748	234,348
Cash held as collateral in trust accounts	377,932	86,351
Cash and cash equivalents held by swap counterparties	39,337	22,051
Total restricted cash and cash equivalents	<u>\$ 1,503,813</u>	<u>\$ 1,202,651</u>

## 7. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company's loss and loss adjustment expense reserves are comprised of:

- case reserves resulting from claims notified to the Company by its clients;
- incurred but not reported ("IBNR") losses; and
- estimated loss adjustment expenses.

Case reserves are provided by the clients, and IBNR losses are estimated for each reporting period based on a review of all data available for each individual contract in the portfolio.

The Company establishes loss reserves based on estimates of the ultimate cost of all losses including IBNR. These estimated ultimate reserves are based on internal actuarial estimates derived from reports received from ceding companies, industry data and historical experience. These estimates are reviewed by the Company at least quarterly and adjusted when necessary. Since reserves are estimates, the setting of appropriate reserves is an inherently uncertain process. The estimates are based upon actuarial and statistical projections, an assessment of currently available data, predictions of future developments and estimates of future trends and other factors. The final settlement of losses may vary, perhaps materially, from the reserves recorded. All adjustments to the estimates are recorded in the period in which they are determined. U.S. GAAP does not permit establishing loss reserves, which include case reserves and IBNR loss reserves, until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses incurred up to the reporting date are established, with no allowance for the establishment of loss reserves to account for expected future loss events.

For natural peril exposed business, loss reserves are generally established based on loss payments and case reserves reported by clients when, and if, received. Estimates for IBNR losses are added to the case reserves. To establish IBNR loss estimates, the Company uses estimates communicated by ceding companies, industry data and information, knowledge of the business written and management's judgment.

For all non-natural peril business, initial reserves for each individual contract are based on the expected loss and loss expense ratio calculated at the time the business was originally priced. In the pricing analysis, the Company utilizes a significant amount of information both from the individual client and from industry data. This typically includes, but is not limited to, data related to premiums, losses, exposure, business mix, industry performance and associated trends covering as much history as deemed appropriate. The level of detail within the data obtained varies greatly depending on the underlying contract, line of business, client and/or coverage provided. For example, the Company may receive more detailed data on a workers' compensation quota share contract with a single counterparty than on a global professional liability book where it takes a small following share of the risk ceded to the reinsurance marketplace. In all cases, the Company requests each client to provide data for each reporting period, which, depending on the contract, could be on a monthly or quarterly basis. The exact data reporting requirements are specified in the terms and conditions of each contract. Where practical, historic reserving data that is received from a client is compared to publicly available financial statements of the client to identify, confirm and monitor the accuracy and completeness of the data. To the extent that relevant client and/or industry data is not available, the Company places reliance on the judgment and experience of its underwriters and actuaries in determining appropriate reserves to hold.

Generally, the Company obtains regular updates of premium and loss related information for the current period and historical periods, which are utilized to update the initial expected loss and loss expense ratio. There may be a time lag from when claims are reported by the underlying insured to the client and subsequently when the client reports the claims to the Company. This time lag may impact the Company's loss reserve estimates from period to period. Client reports have pre-determined reporting dates of when they are due (for example, fifteen days after month end). As such, the time lag in the client's reporting depends upon the terms of the specific contract. The timing of the reporting requirements is designed so that the Company receives premium and loss information as soon as practicable once the client has closed its books. Accordingly, there should be a short lag in such reporting. Additionally, most of the contracts that have the potential for large single event losses have provisions that such loss notifications need to be received immediately upon the occurrence of an event. Once the updated information is received, the Company uses a variety of standard actuarial methods for its analysis each quarter. Such methods may include the:

- ***Paid Loss Development Method.*** Ultimate losses are estimated by calculating past paid loss development factors and applying them to exposure periods with further expected paid loss development. The paid loss development method assumes that losses are paid in a consistent pattern. It provides an objective test of reported loss projections because paid losses contain no reserve estimates.
- ***Reported Loss Development Method.*** Ultimate losses are estimated by calculating past reported loss development factors and applying them to exposure periods with further expected reported loss development. Since reported losses include payments and case reserves, changes in both of these amounts are incorporated in this method.
- ***Expected Loss Ratio Method.*** Ultimate losses are estimated by multiplying earned premiums by an expected loss ratio. The expected loss ratio is selected using industry data, historical company data and actuarial professional judgment. This method is typically used for lines of business and contracts where there are no historical losses or where past loss experience is not credible.
- ***Bornhuetter-Ferguson Paid Loss Method.*** Ultimate losses are estimated by modifying expected loss ratios to the extent that paid losses experienced to date differ from what would have been expected to have been paid based upon the selected paid loss development pattern. This method avoids some of the distortions that could result from a large development factor being applied to a small base of paid losses to calculate ultimate losses.
- ***Bornhuetter-Ferguson Reported Loss Method.*** Ultimate losses are estimated by modifying expected loss ratios to the extent reported losses experienced to date differ from what would have been expected to have been reported based upon the selected reported loss development pattern. This method avoids some of the distortions that could result from a large development factor being applied to a small base of reported losses to calculate ultimate losses.
- ***Frequency / Severity Method.*** Ultimate losses are estimated under this method by multiplying the ultimate number of claims (i.e. the frequency multiplied by the exposure base on which the frequency has been determined), by the estimated ultimate average cost per claim (i.e. the severity). By analyzing claims experience by its frequency and severity components, the Company can examine trends and patterns in the rates of claims emergence (i.e. reporting) and settlement (i.e. closure) as well as in the average cost of claims. The approach is valuable because sometimes there is more inherent stability in the frequency and severity data when viewed separately rather than in the total losses.

In addition, the Company may supplement its analysis with other reserving methodologies that are deemed to be relevant to specific contracts.

For each contract, the Company utilizes reserving methodologies that are deemed appropriate to calculate a best estimate, or point estimate, of reserves. The decision of whether to use a single methodology or a combination of multiple methodologies depends upon the segment of the portfolio being analyzed and the judgment of the actuaries. The Company's reserving methodology does not require a fixed weighting of the various methods used. Certain methods are considered more appropriate depending on the type and structure of the contract, the age and maturity of the contract, and the duration of the expected paid losses on the contract. For example, the data estimation for contracts that are relatively new and therefore, have little paid loss development, is more appropriately considered using the Bornhuetter-Ferguson Reported Loss Method than a paid loss development method.

The Company's gross aggregate reserves are the sum of the point estimate reserves of all portfolio exposures. Generally, IBNR loss reserves are calculated by estimating the ultimate incurred losses at any point in time and subtracting cumulative paid claims and case reserves, which incorporate specific exposures, loss payment and reporting patterns and other relevant factors. Each quarter, the reserving committee, which is lead by of the Chief Operating Officer meets to assess the adequacy of our loss reserves based on the reserve analysis and recommendations prepared by the Company's reserving department. The reserving committee reviews, discusses and approves or revises the stated reserves.

Additionally, an independent third-party actuarial firm performs a quarterly reserve review and annually opines on the reasonableness and adequacy of the aggregate loss reserves. The Company provides the third-party actuarial firm with its pricing models, reserving analysis and any other data they may request. Additionally, the actuarial firm may inquire as to the various assumptions and estimates used in the reserving analysis. The external actuarial firm independently creates its own reserving models based on industry loss information, augmented by specific client loss information as well as its own independent assumptions and estimates. Based on various reserving methodologies that the actuarial firm considers appropriate, it creates a loss reserve estimate for each segment in the portfolio and recommends an aggregate loss reserve, including IBNR. If there are material differences between the Company's aggregate booked reserves and the actuarial firm's recommended reserves, the differences are reviewed and the booked reserves are adjusted if necessary. To date there have been no material differences resulting from the external actuary's reviews requiring adjustments to the Company's booked reserves.

There were no significant changes in the actuarial methodology or assumptions relating to the Company's loss and loss adjustment expense reserves for the year ended December 31, 2017.

At December 31, 2017 and 2016, loss and loss adjustment expense reserves were comprised of the following:

	<u>2017</u>	<u>2016</u>
	<b>(\$ in thousands)</b>	
Case reserves	\$ 178,088	\$ 98,815
IBNR	286,292	207,826
Total	<u>\$ 464,380</u>	<u>\$ 306,641</u>

A summary of changes in outstanding loss and loss adjustment expense reserves is presented in the table below.

<u>Consolidated</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<b>(\$ in thousands)</b>		
Gross balance at January 1	\$ 306,641	\$ 305,997	\$ 264,243
Less: Losses recoverable	(2,704)	(3,368)	(11,523)
Net balance at January 1	<u>303,937</u>	<u>302,629</u>	<u>252,720</u>
Incurred losses related to:			
Current year	466,247	345,303	266,796
Prior years	36,157	35,512	50,301
Total incurred	<u>502,404</u>	<u>380,815</u>	<u>317,097</u>
Paid losses related to:			
Current year	(220,298)	(156,181)	(132,017)
Prior years	(154,183)	(216,489)	(132,846)
Total paid	<u>(374,481)</u>	<u>(372,670)</u>	<u>(264,863)</u>
Foreign currency revaluation	3,061	(6,837)	(2,325)
Net balance at December 31	434,921	303,937	302,629
Add: Losses recoverable	29,459	2,704	3,368
Gross balance at December 31	<u>\$ 464,380</u>	<u>\$ 306,641</u>	<u>\$ 305,997</u>

The rollforward of outstanding loss and loss adjustment expense reserves for health claims is as follows:

<b>Health</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(\$ in thousands)</b>		
Gross balance at January 1	\$ 18,993	\$ 21,533	\$ 14,137
Less: Losses recoverable	—	—	—
Net balance at January 1	<u>18,993</u>	<u>21,533</u>	<u>14,137</u>
Incurred losses related to:			
Current year	44,539	38,726	34,136
Prior years	3,739	(1,477)	(2,680)
Total incurred	<u>48,278</u>	<u>37,249</u>	<u>31,456</u>
Paid losses related to:			
Current year	(23,814)	(22,039)	(14,090)
Prior years	(21,276)	(17,750)	(9,970)
Total paid	<u>(45,090)</u>	<u>(39,789)</u>	<u>(24,060)</u>
Foreign currency revaluation	—	—	—
Net balance at December 31	22,181	18,993	21,533
Add: Losses recoverable	—	—	—
Gross balance at December 31	<u>\$ 22,181</u>	<u>\$ 18,993</u>	<u>\$ 21,533</u>

## Loss development

### *Year ended December 31, 2017*

For the year ended December 31, 2017, the net losses incurred included \$36.2 million related to net adverse loss development on reserves relating to accident years prior to 2017. During the year ended December 31, 2017, the loss development on prior year contracts primarily related to the following:

- \$10.7 million of adverse loss development associated with various classes of professional liability exposure, driven by additional reporting on individual claims, as well as the Company’s assessment of industry wide loss ratio performance;
- \$4.3 million of adverse loss development associated with motor contracts based on re-projection of ultimate losses using client reporting patterns;
- \$4.1 million of adverse loss development relating to Florida homeowners’ insurance contracts, largely driven by “assignment of benefits” issues in the state whereby homeowners assign their rights for filing and settling claims to attorneys and public adjusters;
- \$3.7 million of adverse loss development associated with specialty health contracts arising from frequency of medical claims reported; and
- \$2.2 million of adverse loss development due to large claims reported on a surety contract.

The remaining \$11.2 million of adverse development for the year ended December 31, 2017, was due to development across various other casualty and multi-line contracts. There were no other significant developments of prior period loss reserves during the year ended December 31, 2017.

For the year ended December 31, 2016, the net losses incurred included \$35.5 million related to net adverse loss development on reserves relating to accident years prior to 2016. During the year ended December 31, 2016, the loss development on prior year contracts primarily related to the following:



- \$19.0 million of losses resulting from the loss portfolio transfer and subsequent novation of legacy construction defect liabilities;
- \$7.0 million of adverse loss development relating to our Florida homeowners' insurance contracts as a result of deterioration of sinkhole claims and an increase in the practice of "assignment of benefits" whereby homeowners assign their rights for filing and settling claims to attorneys and public adjusters;
- \$6.7 million of adverse loss development relating to our private passenger motor contracts. While the loss indications are close to our expectations, the volume and frequency of unmerited suits served to the cedent by attorneys and medical clinics has resulted in an increase in loss adjustment expenses to defend such claims; and
- \$4.5 million of adverse loss development on an excess of loss contract relating to losses resulting from the U.S. sub-prime crisis.

There were no other significant developments of prior period loss reserves during the year ended December 31, 2016.

For the year ended December 31, 2015, the net losses incurred included \$50.3 million related to net adverse loss development on reserves relating to accident years prior to 2015. During the year ended December 31, 2015, the loss development on prior year contracts primarily related to the following:

- \$36.9 million of adverse loss development relating to a general liability contract originally written from 2008 to 2011. This contract contains underlying construction defect liability coverage predominantly on single family homes. During the third quarter of 2015, we completed an in-depth analysis, with the assistance of a third party expert, of the construction defect claims reported and the potential for claims not yet reported on this contract. Based on this assessment, we revised the actuarial methodology used for reserving the construction defect claims on this contract, which resulted in an increase in incurred but not reported losses;
- \$14.7 million of adverse loss development relating to a general liability contract originally written in 2010. This contract contains underlying construction defect liability coverage. Based on updated data received from the insured, we conducted additional actuarial analysis and updated our actuarial input parameters based on consultation with external industry experts. As a result, the average estimated cost per claim was increased;
- \$9.3 million of adverse loss development relating to our Florida homeowners' insurance contracts as a result of deterioration of sinkhole losses and higher than anticipated water damage claims from rainstorms and increase in the practice of assignment of benefits;
- \$2.4 million of net adverse loss development relating to our solicitors' professional indemnity contracts as a result of multiple large claims reported during the period and an increase in incurred losses;
- \$5.1 million of favorable loss development relating to an excess of loss property contract resulting in the elimination of loss reserves based on updated loss information received from the insured during the period indicating that no losses will breach into our layer of coverage;
- \$4.5 million of favorable loss development relating to private passenger motor contracts during the period;
- \$2.3 million of favorable loss development relating to the employer medical stop-loss business as a result of better than expected claims frequency reported by the cedent; and
- \$1.3 million of loss reserves released upon commutation of a private passenger motor contract during the period.

There were no other significant developments of prior period loss reserves during the year ended December 31, 2015.

### Disclosures about Short Duration Contracts

The Company manages its business on the basis of one operating segment, property & casualty reinsurance. Within the property and casualty reinsurance segment, management analyzes the underwriting operations using two categories: frequency business; and severity business. Frequency business is generally characterized as contracts containing a potentially large number of small losses emanating from multiple events. Severity business is generally characterized as contracts with the potential for significant losses emanating from one event or multiple events.

For each of the frequency and severity categories, the following tables presents the incurred and paid claims development as of December 31, 2017, net of retrocession, as well as the total of incurred but not reported liabilities plus expected development on reported claims included within the net incurred claims amount. As required by U.S. GAAP, health claims have been disaggregated and presented separately.

The information in the tables below about incurred and paid claims development for the years ended December 31, 2008 to 2016, is presented as unaudited supplementary information.

#### Frequency - Health

Accident year	Incurred claims and allocated claim adjustment expenses, net of reinsurance										December 31, 2017
	For the years ended December 31,										Total IBNR plus expected development on reported claims
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
<b>(Unaudited - Supplementary Information)</b>											
(\$ in thousands)											
2008	\$ 10,593	\$ 11,677	\$ 11,432	\$ 11,361	\$ 12,150	\$ 11,249	\$ 11,249	\$ 11,247	\$ 11,279	\$ 11,247	\$ —
2009	—	24,905	23,884	23,393	23,402	23,402	23,402	23,401	23,401	23,401	—
2010	—	—	36,066	35,968	49,492	36,120	36,120	36,107	36,107	36,107	—
2011	—	—	—	36,088	36,145	35,755	35,737	35,533	35,540	35,533	—
2012	—	—	—	—	10,494	9,781	9,723	9,621	9,621	9,621	—
2013	—	—	—	—	—	43,895	46,969	47,301	47,045	47,032	—
2014	—	—	—	—	—	—	32,845	30,154	29,455	29,042	—
2015	—	—	—	—	—	—	—	34,136	33,576	34,201	—
2016	—	—	—	—	—	—	—	—	37,726	41,305	1,456
2017	—	—	—	—	—	—	—	—	—	44,539	20,725
										<u>Total</u>	<u>\$ 312,028</u>

**Frequency - Health**

<b>Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance</b>											
<b>For the years ended December 31,</b>											
<b>Accident year</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	
<b>(Unaudited - Supplementary Information)</b>											
(\$ in thousands)											
2008	\$ 4,199	\$ 10,890	\$ 11,294	\$ 11,277	\$ 11,415	\$ 11,249	\$ 11,249	\$ 11,247	\$ 11,247	\$ 11,247	
2009	—	8,617	23,088	23,392	23,402	23,402	23,402	23,401	23,401	23,401	
2010	—	—	17,771	35,609	41,477	36,120	36,120	36,107	36,107	36,107	
2011	—	—	—	27,104	35,615	35,755	35,737	35,533	35,533	35,533	
2012	—	—	—	—	9,342	9,670	9,723	9,621	9,621	9,621	
2013	—	—	—	—	—	34,515	46,969	47,112	47,045	47,032	
2014	—	—	—	—	—	—	19,040	28,486	29,159	29,042	
2015	—	—	—	—	—	—	—	14,561	32,043	34,201	
2016	—	—	—	—	—	—	—	—	20,601	39,850	
2017	—	—	—	—	—	—	—	—	—	23,814	
									Total	289,848	
										All outstanding liabilities before 2008, net of reinsurance	—
										Liabilities for claims and claims adjustment expenses, net of reinsurance (Health)	\$ 22,181

**Frequency - Non-Health**

<b>Incurred claims and allocated claim adjustment expenses, net of reinsurance</b>											<b>December 31, 2017</b>
<b>For the years ended December 31,</b>											<b>Total IBNR plus expected development on reported claims</b>
<b>Accident year</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	
<b>(Unaudited - Supplementary Information)</b>											
(\$ in thousands)											
2008	\$ 38,126	\$ 34,675	\$ 35,893	\$ 38,669	\$ 40,523	\$ 40,518	\$ 41,620	\$ 42,078	\$ 41,707	\$ 41,785	\$ 33
2009	—	79,796	91,523	101,259	109,936	106,040	107,323	112,312	111,741	111,812	31
2010	—	—	130,449	144,489	162,112	161,414	165,504	173,764	176,608	176,594	392
2011	—	—	—	173,216	189,690	200,216	212,697	235,787	254,723	254,984	1,563
2012	—	—	—	—	268,511	271,334	270,409	287,025	286,548	287,482	2,192
2013	—	—	—	—	—	309,833	305,919	306,524	308,783	309,694	3,912
2014	—	—	—	—	—	—	178,117	178,247	181,753	183,986	11,151
2015	—	—	—	—	—	—	—	225,244	230,745	236,109	37,080
2016	—	—	—	—	—	—	—	—	291,180	304,962	82,755
2017	—	—	—	—	—	—	—	—	—	367,342	185,910
									Total	\$ 2,274,750	

**Frequency - Non-Health**

<b>Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance</b>												
<b>For the years ended December 31,</b>												
<b>Accident year</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>		
<b>(Unaudited - Supplementary Information)</b>												
(\$ in thousands)												
2008	\$ 10,345	\$ 25,145	\$ 31,686	\$ 36,587	\$ 39,151	\$ 40,269	\$ 41,190	\$ 41,310	\$ 41,707	\$ 41,752		
2009	—	26,518	62,220	81,055	94,851	99,832	103,833	105,493	111,741	111,781		
2010	—	—	50,177	100,334	127,823	143,989	156,396	161,725	176,146	176,201		
2011	—	—	—	78,846	134,140	168,209	185,591	203,255	252,684	253,421		
2012	—	—	—	—	121,538	236,556	253,949	262,086	283,653	285,290		
2013	—	—	—	—	—	145,593	264,730	291,231	301,772	305,782		
2014	—	—	—	—	—	—	82,244	149,445	161,064	172,834		
2015	—	—	—	—	—	—	—	109,376	179,725	199,029		
2016	—	—	—	—	—	—	—	—	132,142	222,207		
2017	—	—	—	—	—	—	—	—	—	181,431		
										Total	1,949,728	
											All outstanding liabilities before 2008, net of reinsurance	—
											Liabilities for claims and claims adjustment expenses, net of reinsurance (Frequency)	\$ 325,021

**Severity**

<b>Incurred claims and allocated claim adjustment expenses, net of reinsurance</b>											<b>December 31, 2017</b>
<b>For the years ended December 31,</b>											<b>Total IBNR plus expected development on reported claims</b>
<b>Accident year</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	
<b>(Unaudited - Supplementary Information)</b>											
(\$ in thousands)											
2008	\$ 16,466	\$ 19,329	\$ 18,026	\$ 18,028	\$ 17,469	\$ 19,583	\$ 19,582	\$ 17,843	\$ 20,212	\$ 20,212	\$ 4,810
2009	—	19,093	15,372	14,970	14,329	14,183	14,010	10,820	10,796	10,844	6,381
2010	—	—	4,522	5,147	14,079	14,042	14,291	14,194	14,507	14,358	2,570
2011	—	—	—	5,071	5,069	5,068	5,079	5,074	5,081	5,082	28
2012	—	—	—	—	15,000	—	—	—	—	—	—
2013	—	—	—	—	—	2,885	1,807	1,507	1,501	1,502	—
2014	—	—	—	—	—	—	4,749	4,750	4,624	4,745	1,772
2015	—	—	—	—	—	—	—	8,204	8,354	10,161	5,753
2016	—	—	—	—	—	—	—	—	17,265	20,108	16,005
2017	—	—	—	—	—	—	—	—	—	58,659	43,606
										Total	\$ 145,671

**Severity**

<b>Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance</b>											
<b>For the years ended December 31,</b>											
<b>Accident year</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	
<b>(Unaudited - Supplementary Information)</b>											
(\$ in thousands)											
2008	\$ —	\$ —	\$ 3,148	\$ 6,391	\$ 10,320	\$ 10,356	\$ 10,356	\$ 10,504	\$ 15,243	\$ 15,402	
2009	—	276	2,582	3,364	3,753	3,902	3,952	4,172	4,194	4,463	
2010	—	—	281	862	1,112	1,237	5,899	6,069	11,588	11,788	
2011	—	—	—	24	5,033	5,038	5,044	5,047	5,048	5,054	
2012	—	—	—	—	—	—	—	—	—	—	
2013	—	—	—	—	—	94	729	1,224	1,491	1,502	
2014	—	—	—	—	—	—	1,558	2,457	2,933	2,974	
2015	—	—	—	—	—	—	—	473	1,306	4,408	
2016	—	—	—	—	—	—	—	—	876	4,103	
2017	—	—	—	—	—	—	—	—	—	15,053	
									Total	64,747	
										All outstanding liabilities before 2008, net of reinsurance	2,486
										Liabilities for claims and claims adjustment expenses, net of reinsurance (Severity)	\$ 83,412

For any incurred and paid claims denominated in a currency other than U.S. dollars, the above tables are presented using the foreign exchange rate in effect as of the current year end date. As a result, all prior year information has been restated to reflect the exchange rates as of December 31, 2017. This removes any changes in foreign currency exchange rates from distorting the claims development between the years presented.

For assumed contracts the Company does not generally receive claims information by accident year from the ceding insurers, but instead receives claims information by the treaty year of the contract. Claims reported by the ceding insurer to the Company may have the covered losses occurring in an accident year other than the treaty year. For the purpose of the loss development tables, the incurred and paid claims have been allocated to the accident years based on the proportion of premiums earned for each contract during such accident year.

For example, a one-year treaty incepting on October 1, 2010 (with underlying policies each having a one-year duration), would have a 24-month period over which the premiums would be earned. Therefore, claims would be allocated to accident years 2010, 2011 and 2012 based on the proportion of the premiums earned during each accident year. For illustration of this contract, any claims reported during 2010 would be allocated to the 2010 accident year. For losses reported during 2011, the claims would be allocated between 2010 and 2011 based on the percentage of premiums earned during 2010 and 2011. Similarly, for losses reported during 2012 and thereafter, the losses would be allocated to the 2010, 2011 and 2012 accident years based on the proportion of premiums earned during each of those years. However, natural catastrophe losses are treated separately and losses arising from such events are allocated to the specific accident year in which they occurred.

The reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses in the consolidated balance sheet is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
	(\$ in thousands)	
Net outstanding liabilities		
Health	\$ 22,181	\$ 18,993
Frequency - non-health	325,021	239,151
Severity	83,412	42,178
Liabilities for claims and claims adjustment expenses, net of reinsurance	<u>430,614</u>	<u>300,322</u>
Add: Reinsurance recoverable on unpaid claims	29,459	2,704
Add: Unallocated claims adjustment expenses	4,307	3,615
Total gross liabilities for unpaid claims and claim adjustment expense	<u>\$ 464,380</u>	<u>\$ 306,641</u>

The average historical annual percentage payout of net incurred claims (excluding health) as of the year ended December 31, 2017 is as follows:

Years	1	2	3	4	5	6	7	8	9	10
	(Unaudited - Supplementary Information)									
Frequency - Non-health	37.3%	30.5%	9.5%	5.7%	5.0%	6.8%	2.9%	1.9%	0.3%	0.1%
Severity	3.1%	11.8%	9.5%	8.5%	18.0%	4.0%	10.1%	0.8%	16.1%	18.1%

The historical annual percentage payout pattern for health claims is excluded from the table above because health claims have short settlement periods and including it would skew the results presented. In addition, the payout percentages for the severity business are expected to fluctuate, sometimes significantly, due to the volatile nature of the loss experience emerging on such contracts.

As a reinsurance entity, the Company does not consistently receive detailed claims frequency information or claims counts, from ceding insurers and third party claim handlers. Due to the nature of the reinsurance contracts, the underlying insured reports claims to the insurer who cedes losses to the Company. The Company is contractually obligated to reimburse the ceding insurer for its share of the losses. While the Company has the right to conduct audits of the ceding insurer's claims files, the insurer is generally not obligated to provide detailed listing of claims counts or other claims frequency information to the Company. Therefore it is impracticable for the Company to present the cumulative number of reported claims by accident year.

## 8. RETROCESSION

The Company, from time to time, purchases retrocessional coverage for one or more of the following reasons: to manage its overall exposure, to reduce its net liability on individual risks, to obtain additional underwriting capacity and to balance its underwriting portfolio. Additionally, retrocession can be used as a mechanism to share the risks and rewards of business written and therefore can be used as a tool to align the Company's interests with those of its counterparties. The Company currently has coverage that provides for recovery of a portion of loss and loss expenses incurred on certain contracts. Loss and loss adjustment expense recoverable from the retrocessionaires are recorded as assets. For the year ended December 31, 2017, the Company's earned ceded premiums were \$33.8 million (2016: \$10.9 million and 2015: \$9.8 million).

For the year ended December 31, 2017, loss and loss adjustment expenses incurred of \$502.4 million (2016: \$380.8 million and 2015: \$317.1 million) reported on the consolidated statements of income are net of loss and loss expenses recovered and recoverable of \$31.8 million (2016: \$0.9 million and 2015: \$1.7 million).

Retrocession contracts do not relieve the Company from its obligations to the insureds. Failure of retrocessionaires to honor their obligations could result in losses to the Company. At December 31, 2017, the Company had losses receivable and loss reserves recoverable of \$26.3 million (2016: \$2.2 million) from unrated retrocessionaires which were secured by cash and collateral held in trust accounts for the benefit of the Company. At December 31, 2017, \$3.1 million (2016: \$0.5 million) of losses recoverable were from retrocessionaires rated A- or above by A.M. Best.

The Company regularly evaluates the financial condition of its retrocessionaires to assess the ability of the retrocessionaires to honor their respective obligations. At December 31, 2017 and 2016, no provision for uncollectible losses recoverable was considered necessary.

## **9. SHARE CAPITAL**

The holders of all ordinary shares are entitled to share equally in dividends declared by the Board of Directors. In the event of a winding-up or dissolution of the Company, the ordinary shareholders share equally and ratably in the assets of the Company, after payment of all debts and liabilities of the Company and after liquidation of any issued and outstanding preferred shares. At December 31, 2017, no preferred shares were issued or outstanding. The Board of Directors is authorized to establish the rights and restrictions for preferred shares as they deem appropriate.

The Third Amended and Restated Memorandum and Articles of Association as revised by special resolution on July 10, 2008 (the "Articles"), provide that the holders of Class A ordinary shares generally are entitled to one vote per share. However, except upon unanimous consent of the Board of Directors, no Class A shareholder is permitted to vote an amount of shares which would cause any United States person to own (directly, indirectly or constructively under applicable United States tax attribution and constructive ownership rules) 9.9% or more of the total voting power of all issued and outstanding ordinary shares. The Articles further provide that the holders of Class B ordinary shares generally are entitled to ten votes per share. However, holders of Class B ordinary shares, together with their affiliates, are limited to voting that number of Class B ordinary shares equal to 9.5% of the total voting power of the total issued and outstanding ordinary shares.

Pursuant to the Shareholders' Agreement, dated August 11, 2004, by and among the Company and certain of its shareholders (the "Shareholders' Agreement"), the holders of at least 50% of the outstanding Registrable Securities (as defined in the Shareholders' Agreement), may, subject to certain conditions, request to have all or part of their Registrable Securities to be registered. The Shareholders' Agreement requires, among other things, that the Company use its commercially reasonable best efforts to have a registration statement covering such Registrable Securities to be declared effective. The registration rights granted pursuant to the Shareholders' Agreement are not deemed to be liabilities; therefore, there has been no recognition in the consolidated financial statements of the registration rights granted pursuant to the Shareholders' Agreement.

As of December 31, 2017, the Company has an effective Form S-3 registration statement, on file with the SEC, for an aggregate principal amount of \$200.0 million in securities.

Shares authorized for issuance are comprised of 300,000 (2016: 300,000) Class A ordinary shares in relation to share purchase options granted to a service provider and 5,000,000 (2016: 3,500,000) Class A ordinary shares authorized for the Company's stock incentive plan for eligible employees, directors and consultants. On April 26, 2017, our shareholders approved an amendment to our stock incentive plan to increase the number of Class A ordinary shares available for issuance by 1.5 million shares from \$3.5 million to \$5.0 million. As of December 31, 2017 and 2016, there were no remaining Class A ordinary shares available for future issuance relating to share purchase options granted to the service provider as all options granted to service providers had been exercised. As of December 31, 2017 1,271,154 (2016: 424,787) Class A ordinary shares remained available for future issuance under the Company's stock incentive plan. The stock incentive plan is administered by the Compensation Committee of the Board of Directors.

The Board has adopted a share repurchase plan. Under the share repurchase plan, the Board authorized the Company to purchase up to 2.0 million of its Class A ordinary shares from time to time. Class A ordinary shares or securities convertible into

Class A ordinary shares, may be purchased in the open market, through privately negotiated transactions or Rule 10b5-1 stock trading plans. The timing of such repurchases and actual number of shares repurchased will depend on a variety of factors including price, market conditions and applicable regulatory and corporate requirements. The share repurchase plan, which expires on June 30, 2017, does not require the Company to repurchase any specific number of shares and may be modified, suspended or terminated at any time without prior notice. During the year ended December 31, 2017, 136,312 Class A ordinary shares were repurchased by the Company. As of December 31, 2017, 1,863,688 shares remained available for repurchase under the share repurchase plan. Under the Companies Law of the Cayman Islands, the Company cannot hold treasury shares; therefore, all ordinary shares repurchased are canceled immediately upon repurchase.

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

	2017		2016		2015	
	Class A	Class B	Class A	Class B	Class A	Class B
Balance – beginning of year	31,111,432	6,254,895	30,772,572	6,254,895	31,129,648	6,254,895
Issue of ordinary shares, net of forfeitures	129,530	—	338,860	—	256,464	—
Repurchase of ordinary shares	(136,312)	—	—	—	(613,540)	—
Class B shares converted to Class A shares	180	(180)	—	—	—	—
Balance – end of year	31,104,830	6,254,715	31,111,432	6,254,895	30,772,572	6,254,895

Greenlight Re is subject to the Cayman Islands’ Insurance (Capital and Solvency) (Classes B, C, and D Insurers) Regulations, 2012 (the “Insurance Regulations”). The Insurance Regulations impose a Minimum Capital Requirement of US\$50.0 million and a Prescribed Capital Requirement of \$329.7 million on Greenlight Re as of December 31, 2017 (2016: \$276.0 million). As of December 31, 2017, Greenlight Re’s statutory capital and surplus of \$762.2 million exceeded the Minimum Capital Requirement as well as the Prescribed Capital Requirement. For the years ended December 31, 2017, 2016 and 2015, Greenlight Re’s net income (loss) was \$(38.2) million, \$44.8 million, and \$(309.5) million, respectively.

Greenlight Re is not required to prepare separate statutory financial statements for filing with CIMA and there were no material differences between Greenlight Re’s GAAP capital, surplus and net income, and its statutory capital, surplus and net income as of December 31, 2017 and 2016.

As of December 31, 2017, the Company was not restricted from payment of dividends to the Company’s shareholders. However, since most of the Company’s capital and retained earnings are invested in its subsidiaries, a dividend from one or more of the Company’s subsidiaries would likely be required in order to fund a dividend to the Company’s shareholders. Any dividends declared and paid from Greenlight Re to the Company would require approval of CIMA. During the year ended December 31, 2017, \$33.0 million of dividends (2016: nil, 2015: \$5.0 million) were declared and paid by Greenlight Re to the Company. As of December 31, 2017 and 2016, \$432.5 million and \$557.2 million, respectively, of Greenlight Re’s capital and surplus was available for distribution as dividends.

GRIL is obligated to maintain a minimum level of capital. As of December 31, 2017 and 2016, GRIL met such requirements. As of December 31, 2017 and 2016, GRIL’s statutory capital and surplus was \$52.9 million and \$52.4 million, respectively. As of December 31, 2017, GRIL’s statutory minimum capital required under Solvency II was approximately \$9.9 million (2016: \$9.9 million). GRIL’s statutory net income (loss) was \$(3.7) million, \$3.2 million and \$(12.8) million for the years ended December 31, 2017, 2016 and 2015, respectively. The amount of dividends that GRIL is permitted to distribute is limited to its retained earnings and the Central Bank of Ireland has powers to intervene if a dividend payment were to lead to a breach of regulatory capital requirements. As of December 31, 2017 and 2016, none of GRIL’s capital and surplus was available for distribution as dividends.

Additional paid-in capital includes the premium per share paid by the subscribing shareholders for Class A and B ordinary shares which have a par value of \$0.10 each. It also includes share-based awards earned not yet issued.



## 10. SHARE-BASED COMPENSATION

The Company has a stock incentive plan for directors, employees and consultants as detailed in Note 9 above.

### Employee and Director Restricted Shares

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

For the year ended December 31, 2017, 125,371 (2016: 153,648, 2015: 78,685) Class A ordinary shares were issued to employees pursuant to the Company's stock incentive plan. The majority of these shares contain certain restrictions relating to, among other things, vesting, forfeiture in the event of termination of employment and transferability. The restricted shares cliff vest after three years from the date of issuance, subject to the grantee's continued service with the Company. During the vesting period, the holder of the restricted shares retains voting rights and is entitled to any dividends declared by the Company.

For the year ended December 31, 2017, the Company also issued to non-employee directors an aggregate of 41,396 (2016: 39,288, 2015: 28,215) restricted Class A ordinary shares as part of their remuneration for services to the Company. Each of these restricted shares issued to non-employee directors contains similar restrictions to those issued to employees and will vest on the earlier of the first anniversary of the date of the share issuance or the Company's next annual general meeting, subject to the grantee's continued service with the Company.

For the year ended December 31, 2017, 46,943 (2016: 11,897, 2015: 9,621) restricted shares were forfeited by employees who left the Company prior to the expiration of the applicable vesting periods. For the year ended December 31, 2017, in accordance with U.S. GAAP, no stock compensation expense (2016: \$0.5 million, 2015: \$0.1 million) relating to the forfeited restricted shares was reversed. The restricted shares forfeited during the year ended December 31, 2017 included 46,319 restricted shares relating to the Company's former Chief Executive Officer (the "former CEO") who resigned from the Company prior to the expiration of the applicable vesting periods. For the year ended December 31, 2017, no stock compensation expense was reversed relating to the former CEO's forfeited shares since \$0.4 million of stock compensation expense was reversed during the fourth quarter of 2016, when it was deemed likely that these restricted shares would be forfeited.

The Company recorded \$3.3 million of share-based compensation expense, net of the reversal for forfeitures, relating to restricted shares for the year ended December 31, 2017 (2016: \$3.1 million, 2015: \$3.6 million). As of December 31, 2017, there was \$3.5 million (2016: \$2.9 million, 2015: \$3.7 million) of unrecognized compensation cost relating to non-vested restricted shares which are expected to be recognized over a weighted average period of 1.6 years (2016: 1.6 years, 2015: 1.6 years). For the year ended December 31, 2017, the total fair value of restricted shares vested was \$4.5 million (2016: \$3.1 million, 2015: \$3.2 million).

The following table summarizes the activity for unvested outstanding restricted share awards during the years ended December 31, 2017 and 2016:

	<b>Number of non-vested restricted shares</b>	<b>Weighted average grant date fair value</b>
Balance at December 31, 2015	307,013	\$ 29.74
Granted	192,936	21.53
Vested	(122,620)	25.66
Forfeited	(11,897)	29.97
Balance at December 31, 2016	365,432	26.76
Granted	166,767	21.60
Vested	(153,746)	28.97
Forfeited	(46,943)	24.57
Balance at December 31, 2017	<u>331,510</u>	<u>\$ 23.45</u>

### Employee and Director Stock Options

For the year ended December 31, 2017, 480,000 Class A ordinary share purchase options were granted to the Company's CEO, pursuant to his employment contract (2016 and 2015: 57,386 and 40,683, respectively, to the former CEO). These options vest 16.7% each on the anniversary thereof in 2018, 2019, 2020, 2021, 2022 and 2023, and expire 10 years after the grant date. The grant date fair value of these options was \$9.60 per share (2016: \$8.71 per share, 2015: \$12.29), based on the Black-Scholes option pricing model.

For the year ended December 31, 2017, 42,250 Class A ordinary share purchase options were granted to the Company's former interim Chief Executive Officer, pursuant to his consulting agreement. These options vested 100% on the date of the grant. The weighted average grant date fair value of these options was \$9.90 per share based on the Black-Scholes option pricing model.

The estimate of expected volatility for options granted during 2017, 2016 and 2015 was based on the daily historical trading data of the Company's Class A ordinary shares from the date that these shares commenced trading on May 24, 2007 to July 31, 2017.

The Company uses the Black-Scholes option pricing model to determine the valuation of its options and has applied the following weighted average assumptions:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Risk free rate	2.32%	1.54%	2.15%
Estimated volatility	31.4%	32.4%	32.8%
Expected term (in years)	10	10	10
Dividend yield	0%	0%	0%
Forfeiture rate	0%	0%	0%

At the present time, the Board of Directors does not anticipate that any dividends will be declared during the expected term of the options. The Company uses graded vesting for expensing employee stock options. The total compensation cost expensed for the year ended December 31, 2017 was \$1.3 million (2016: \$0.9 million, 2015: \$0.5 million) which was solely related to the options granted to the CEO. At December 31, 2017, the total compensation cost related to non-vested options not yet recognized was \$3.7 million (2016: \$0.0 million) to be recognized over a weighted average period of 3.3 years (2016: 0.0 years) assuming the employees complete their service period for vesting of the options.

For the year ended December 31, 2017, 50,000 stock options were exercised by directors and employees (2016: 421,000, 2015: 250,000) resulting in 5,011 Class A ordinary shares being issued, net of shares surrendered as a result of the cashless exercise of stock options (2016: 156,022, 2015: 158,925). When stock options are granted, the Company reduces the corresponding number from the shares authorized for issuance as part of the Company's stock incentive plan.

Employee and director stock option activity during the years ended December 31, 2017, 2016 and 2015 was as follows:

	Number of options	Weighted average exercise price	Weighted average grant date fair value	Intrinsic value (\$ in millions)	Weighted average remaining contractual term
Balance at December 31, 2014	1,116,308	\$ 17.58	\$ 7.73	\$ 16.8	3.0 years
Granted	40,683	26.67	12.29		
Exercised	(250,000)	11.10	5.57	\$ 4.8	
Balance at December 31, 2015	906,991	19.78	8.53	\$ 2.6	2.9 years
Granted	57,386	19.87	8.71		
Exercised	(421,000)	12.53	6.44	\$ 3.1	
Balance at December 31, 2016	543,377	25.40	10.17	\$ 0.5	4.7 years
Granted	522,250	21.25	9.63		
Exercised	(50,000)	19.60	10.18	\$ 0.1	
Balance at December 31, 2017	1,015,627	\$ 23.55	\$ 9.89	\$ —	6.9 years

The following table summarizes information about options exercisable for the periods indicated:

	December 31,	December 31,	December 31,
Number of options exercisable	535,627	472,042	851,020
Weighted average exercise price	25.66	25.73	19.22
Weighted average remaining contractual term	4.6	4.1	2.6
Intrinsic value (\$ in millions)	—	0.4	2.6

During the year ended December 31, 2017, 113,585 (2016: 42,022, 2015: 38,998) options vested which had a weighted average grant date fair value of \$10.29 (2016: \$11.90, 2015: \$12.82).

### Employee Restricted Stock Units

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

For the year ended December 31, 2017, 11,559 (2016: 7,444, 2015: 6,821) RSUs were issued to employees pursuant to the Company's stock incentive plan. These shares contain certain restrictions relating to, among other things, vesting, forfeiture in the event of termination of employment and transferability. Each of these RSUs cliff vest after three years from the date of issuance, subject to the grantee's continued service with the Company. On the vesting date, the Company converts each RSU into one Class A ordinary share and issues new Class A ordinary shares from the shares authorized for issuance as part of the Company's stock incentive plan.

The Company recorded \$0.2 million of share-based compensation expense (recovery), net of forfeitures, relating to RSUs for the year ended December 31, 2017 (2016: \$(0.1) million, 2015: \$0.2 million). 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.

Employee RSU activity during the years ended December 31, 2017 and 2016 was as follows:

	<b>Number of non-vested RSUs</b>	<b>Weighted average grant date fair value</b>
Balance at December 31, 2015	22,170	\$ 30.55
Granted	7,444	21.56
Vested	(1,799)	26.48
Forfeited	(11,881)	29.60
Balance at December 31, 2016	15,934	27.52
Granted	11,559	21.65
Vested	(4,695)	32.60
Balance at December 31, 2017	<u>22,798</u>	<u>\$ 23.50</u>

For the years ended December 31, 2017, 2016 and 2015, the general and administrative expenses included stock compensation expense (net of forfeitures) of \$4.9 million, \$4.0 million and \$4.3 million, respectively, for the expensing of the fair value of stock options, restricted stock and RSUs granted to employees and directors, net of forfeitures.

## 11. NET INVESTMENT INCOME

A summary of net investment income (loss) for the years ended December 31, 2017, 2016 and 2015 is as follows:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(\$ in thousands)</b>		
Realized gains (losses)	\$ 87,618	\$ (113,836)	\$ 22,227
Change in unrealized gains and losses	(41,444)	209,993	(265,401)
Investment related foreign exchange gains (losses)	(7,653)	2,988	(3,725)
Interest and dividend income, net of withholding taxes	25,510	23,915	15,313
Interest, dividend and other expenses	(23,937)	(22,334)	(31,092)
Investment advisor compensation	(19,863)	(24,543)	(19,246)
Net investment income (loss)	<u>\$ 20,231</u>	<u>\$ 76,183</u>	<u>\$ (281,924)</u>

Interest and dividend income in the above table are net of any withholding taxes. Investment returns are calculated monthly and compounded to calculate the annual returns. The resulting actual investment income may vary depending on cash flows into or out of the investment account. For the year ended December 31, 2017, investment income, net of all fees and expenses, resulted in a gain of 1.5% on the investment portfolio. This compares to a gain of 7.2% and a loss of (20.2)% reported for the years ended December 31, 2016 and 2015, respectively.

## 12. TAXATION

The Company and Greenlight Re are each domiciled in the Cayman Islands and under current Cayman Islands law, no corporate entity, including the Company and Greenlight Re, is obligated to pay taxes in the Cayman Islands on either income or capital gains. The Company and Greenlight Re each intend to conduct all of its operations in a manner that will not cause it to be treated as engaging in a trade or business within the United States and will not cause it to be subject to current U.S. federal income taxation on its net income. However, because there are no definitive standards provided by the Internal Revenue Code, regulations or court decisions as to the specific activities that constitute being engaged in the conduct of a trade or business within the United States, and as any such determination is essentially factual in nature, there can be no assurance that the IRS will not successfully assert that the Company or Greenlight Re is engaged in a trade or business within the U.S.

Verdant is incorporated in Delaware, and therefore is subject to taxes in accordance with the U.S. federal rates and regulations prescribed by the IRS. Verdant's taxable income is taxed at a marginal tax rate of 21%. GRIL is incorporated in Ireland and, therefore, is subject to the Irish corporation tax. GRIL is taxed at a rate of 12.5% on its trading income.

At December 31, 2017, a deferred tax asset of \$1.7 million, primarily relating to GRIL's net operating losses carried forward (2016: \$1.3 million). At December 31, 2017, GRIL had a net operating loss carry forward of \$13.9 million which can be carried forward indefinitely. At December 31, 2017 and 2016, no taxes recoverable were included in the consolidated balance sheets. Based on the likelihood of GRIL 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.

At December 31, 2017, Verdant had a net operating loss carry forward of \$1.7 million which can be carried forward for a period of 20 years from the year the loss occurred and therefore will expire in 2033. The deferred tax asset associated with the net operating loss carried forward, has been offset by a valuation allowance as management does not anticipate that the carried forward amount will be realized.

The following table sets forth our current and deferred income tax benefit (expense) on a consolidated basis for the years ended December 31, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<b>(\$ in thousands)</b>		
Current tax (expense) benefit	\$ 465	\$ (492)	\$ 15
Deferred tax (expense) benefit	(14)	(17)	1,740
Income tax (expense) benefit	<u>\$ 451</u>	<u>\$ (509)</u>	<u>\$ 1,755</u>

The Company has not taken any tax positions that are subject to uncertainty or that are reasonably likely to have a material impact to the Company, Greenlight Re, GRIL or Verdant.

### ***Federal Excise Taxes***

The United States also imposes an excise tax on reinsurance premiums paid to non-U.S. insurers or reinsurers with respect to risks located in the United States. The rate of tax, unless exempted or reduced by an applicable U.S. tax treaty, is 1.0% for all reinsurance premiums. The Company incurs federal excise taxes on certain of its reinsurance transactions, including amounts ceded through intercompany transactions. For the years ended 2017, 2016 and 2015, the Company incurred approximately \$5.0 million, \$3.9 million and \$3.3 million, respectively, of federal excise taxes, net of any refunds received. These amounts are reflected as acquisition costs in the Company's consolidated statements of income.

## **13. RELATED PARTY TRANSACTIONS**

### **Investment Advisory Agreement**

The Company and its reinsurance subsidiaries are party to a joint venture agreement with DME Advisors, LP ("DME Advisors") under which the Company, its reinsurance subsidiaries and DME Advisors LLC ("DME") are participants of a joint venture for the purpose of managing certain jointly held assets, as may be amended from time to time (the "venture agreement"). In addition, the Company, its reinsurance subsidiaries and DME have entered into a separate investment advisory agreement with DME Advisors, as may be amended from time to time (the "advisory agreement"). Effective January 1, 2017, the venture agreement and the advisory agreements were amended and restated to replace the previous agreements dated January 1, 2014, and will expire on December 31, 2019 and renew automatically for successive three-year periods. DME and DME Advisors are related to the Company and each is an affiliate of David Einhorn, Chairman of the Company's Board of Directors.

Pursuant to the venture agreement, performance allocation equal to 20% of the net investment income of the Company's share of the account managed by DME Advisors is allocated, subject to a loss carry forward provision, to DME's account. The loss carry forward provision requires DME to earn a reduced performance allocation of 10% on net investment income in any year subsequent to the year in which the investment account incurs a loss, until all the losses are recouped and an additional amount equal to 150% of the aggregate investment loss is earned. DME is not entitled to earn a performance allocation in a year in which the investment portfolio incurs a loss. For the year ended December 31, 2017, \$2.1 million performance allocation (2016: \$8.2 million, 2015: \$0.0 million) was netted against gross investment income.

Pursuant to the advisory agreement, a monthly management fee, equal to 0.125% (1.5% on an annual basis) of the Company's investment account managed by DME Advisors, is paid to DME Advisors. Included in the net investment income (loss) for the year ended December 31, 2017 were management fees of \$17.8 million (2016: \$16.3 million, 2015: \$19.2 million). The management fees have been fully paid as of December 31, 2017.

Pursuant to the venture and advisory agreements, the Company has agreed to indemnify DME and DME Advisors for any expense, loss, liability, or damage arising out of any claim asserted or threatened in connection with DME Advisors serving as the Company's investment advisor. The Company will reimburse DME and DME Advisors for reasonable costs and expenses of investigating and/or defending such claims, provided such claims were not caused due to gross negligence, breach of contract or misrepresentation by DME or DME Advisors. For the year ended December 31, 2017, there were no indemnification payments payable or paid by the Company.

#### Non-controlling Interest in Related Party Joint Venture

Non-controlling interests in related party joint venture represents DME's share of the jointly held assets under the venture agreement. The joint venture created through the venture agreement has been consolidated in accordance with ASC 810, Consolidation (ASC 810). The Company has recorded DME's minority interests as redeemable non-controlling interests in related party and non-controlling interests in related party in the consolidated balance sheets. A portion of the non-controlling interest is subject to contractual withdrawal rights of DME whereas DME, at its sole discretion, can withdraw its interest above the minimum capital required to be maintained in its capital accounts. This additional capital is therefore recorded on the Company's consolidated balance sheets within the mezzanine section as redeemable non-controlling interest in related party joint venture whereas the required minimum capital is recorded as non-controlling interests in related party joint venture within the equity section on the Company's consolidated balance sheet since it does not have withdrawal rights.

The following table is a reconciliation of the beginning and ending carrying amounts of redeemable non-controlling interests in related party, non-controlling interests in related party and total non-controlling interests in related party for the years ended December 31, 2017, 2016 and 2015 (see Note 1 for additional information on changes in the presentation of non-controlling interests):

	Redeemable non-controlling interest in related party joint venture			Non-controlling interest in related party joint venture			Total non-controlling interest in related party joint venture		
	Year ended December 31			Year ended December 31			Year ended December 31		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Opening balance	\$ 5,884	\$ 12,265	\$ 14,657	\$ 11,561	\$ 11,118	\$ 14,233	\$ 17,445	\$ 23,382	\$ 28,890
Income (loss) attributed to non-controlling interest	201	1,375	(2,392)	378	443	(3,115)	578	1,819	(5,508)
Net contribution into (withdrawal from) non-controlling interest	1,084	(7,756)	—	994	—	—	2,079	(7,756)	—
Ending balance	\$ 7,169	\$ 5,884	\$ 12,265	\$ 12,933	\$ 11,561	\$ 11,118	\$ 20,102	\$ 17,445	\$ 23,382

## 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. As of December 31, 2017, \$39.2 million (2016: \$34.8 million) of GRBK listed equities were included on the balance sheet as “equity securities, trading, at fair value”. 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.

### Service Agreement

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

## 14. COMMITMENTS AND CONTINGENCIES

### Letters of Credit and Trusts

At December 31, 2017, the Company had the following letter of credit facilities, which automatically renew each year unless terminated by either party in accordance with the applicable required notice period:

	<u>Facility</u>	<u>Termination</u> <u>Date</u>	<u>Notice period required for</u> <u>termination</u>
	<b>(\$ in thousands)</b>		
Butterfield Bank (Cayman) Limited	100,000	June 30, 2018	90 days prior to termination date
Citibank Europe plc	400,000	October 11, 2018	120 days prior to termination date
JP Morgan Chase Bank N.A.	100,000	January 27, 2018	120 days prior to termination date
	<u>\$ 600,000</u>		

On September 26, 2017, the Company provided a notice of cancellation to JP Morgan Chase Bank N.A. to terminate the letter of credit facility of \$100.0 million effective on January 27, 2018. As of December 31, 2017, an aggregate amount of \$188.5 million (2016: \$255.4 million) in letters of credit were issued under the above facilities. Under the facilities, the Company provides collateral that may consist of equity securities, restricted cash and cash and cash equivalents. As of December 31, 2017, total equity securities, restricted cash, and cash and cash equivalents with a fair value in the aggregate of \$200.4 million (2016: \$310.9 million) were pledged as collateral against the letters of credit issued (also see Note 4). Each of the facilities contain customary events of default and restrictive covenants, including but not limited to, limitations on liens on collateral, transactions with affiliates, mergers and sales of assets, as well as solvency and maintenance of certain minimum pledged equity requirements, and restricts issuance of any debt without the consent of the letter of credit provider. Additionally, if an event of default exists, as defined in the letter of credit facilities, Greenlight Re will be prohibited from paying dividends to its parent company. The Company was in compliance with all the covenants of each of these facilities as of December 31, 2017 and 2016.

In addition to the letters of credit, the Company has established regulatory trust arrangements for certain cedents. As of December 31, 2017, collateral of \$377.9 million (2016: \$86.4 million) was provided to cedents in the form of regulatory trust accounts.

### Revolving Credit Facility

During the year ended December 31, 2017, the Company entered into a secured revolving credit facility with The Bank of Nova Scotia (the “credit facility”), to provide funding for its investment activities. At December 31, 2017, the Company had the ability to borrow \$50.0 million (the “commitment”) under the credit facility and had borrowed \$25.0 million at an interest

rate of 2.47%. The Company had pledged \$37.7 million of its physical gold holdings as collateral against the borrowed funds. For the year ended December 31, 2017, interest expense pursuant to the credit facility was \$0.01 million and was included in net investment income (loss) in the consolidated statements of income. The credit facility matures on November 8, 2018 and can be extended for one year by the Company upon providing 120 days' notice to the lender. The Company may terminate or reduce the commitment by giving 10-days' notice prior to the effective date of termination or reduction and prepaying the applicable principal obligation and all interest accrued thereon. The credit facility contains customary events of default and restrictive covenants, including but not limited to, limitations on liens on collateral, transactions with affiliates, mergers and sales of assets and restricts issuance of any debt without the consent of the credit facility provider. The Company was in compliance with all the covenants of each of these facilities as of December 31, 2017.

### Operating Lease Obligations

Greenlight Re has entered into lease agreements for office space in the Cayman Islands. Under the terms of the lease agreements, Greenlight Re is committed to annual rent payments ranging from \$0.3 million at inception to \$0.5 million at lease termination. The leases expire on June 30, 2018 and Greenlight Re has the option to renew the leases for a further five year term. Included in the schedule below are the minimum lease payment obligations relating to these leases as of December 31, 2017.

GRIL has entered into a lease agreement for office space in Dublin, Ireland. Under the terms of this lease agreement, GRIL is committed to minimum annual rent payments denominated in Euros approximating €0.1 million until May 2021, and adjusted to the prevailing market rates for each of the two subsequent five-year terms. GRIL has the option to terminate the lease agreement in 2021. Included in the schedule below are the net minimum lease payment obligations relating to this lease as of December 31, 2017.

The total rent expense related to leased office space for the year ended December 31, 2017 was \$0.6 million, (2016: \$0.6 million, 2015: \$0.5 million).

### Private Equity and Limited Partnerships

From time to time, the Company makes investments in private equity vehicles. As part of the Company's participation in such private equity investments, the Company may make funding commitments. As of December 31, 2017, the Company had commitments to invest an additional \$6.5 million (2016: \$9.2 million) in private equity investments. Included in the schedule below are the minimum payment obligations relating to these investments as of December 31, 2017.

### Schedule of Commitments and Contingencies

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Thereafter</u>	<u>Total</u>
	(\$ in thousands)						
Operating lease obligations	\$ 388	\$ 155	\$ 155	\$ 58	\$ —	\$ —	\$ 756
Private equity and limited partnerships <sup>(1)</sup>	6,522	—	—	—	—	—	6,522
	<u>\$ 6,910</u>	<u>\$ 155</u>	<u>\$ 155</u>	<u>\$ 58</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,278</u>

<sup>(1)</sup> Given the nature of these investments, the Company is unable to determine with any degree of accuracy when these commitments will be called. Therefore, for purposes of the above table, the Company has assumed that all commitments with no fixed payment schedules will be called during the year ending December 31, 2018.

### Litigation

From time to time in the normal course of business, the Company may be involved in formal and informal dispute resolution procedures, which may include arbitration or litigation, the outcomes of which determine the rights and obligations



under the Company's reinsurance contracts and other contractual agreements. In some disputes, the Company may seek to enforce its rights under an agreement or to collect funds owing to it. In other matters, the Company may resist attempts by others to collect funds or enforce alleged rights. While the final outcome of legal disputes cannot be predicted with certainty, the Company does not believe that any existing dispute, when finally resolved, will have a material adverse effect on the Company's business, financial condition or operating results.

## 15. SEGMENT REPORTING

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

Substantially all of the business is sourced through reinsurance brokers. The following table sets forth the premiums sourced from brokers who each accounted for more than 10% of the Company's gross written premiums:

	Year ended December 31					
	2017		2016		2015	
	(\$ in thousands)					
Largest broker	\$ 366,390	52.9%	\$ 274,816	51.3%	\$ 278,003	55.4%
2nd largest broker	125,320	18.1	104,684	19.5	110,246	22.0
	<u>\$ 491,710</u>	<u>71.0%</u>	<u>\$ 379,500</u>	<u>70.8%</u>	<u>\$ 388,249</u>	<u>77.4%</u>

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

	Gross Premiums Written by Line of Business					
	Year ended December 31					
	2017		2016		2015	
	(\$ in thousands)					
<b>Property</b>						
Commercial	\$ 18,388	2.7%	\$ 16,180	3.0%	\$ 15,633	3.1%
Motor	73,481	10.6	39,551	7.4	34,529	6.9
Personal	50,045	7.2	47,893	8.9	57,495	11.5
Total Property	<u>141,914</u>	<u>20.5</u>	<u>103,624</u>	<u>19.3</u>	<u>107,657</u>	<u>21.5</u>
<b>Casualty</b>						
General Liability	33,519	4.8	34,450	6.4	27,620	5.5
Motor	287,749	41.5	227,030	42.4	203,624	40.6
Professional	44,910	6.5	37,847	7.1	65,607	13.1
Workers' Compensation	47,761	6.9	25,456	4.7	12,646	2.5
Total Casualty	<u>413,939</u>	<u>59.7</u>	<u>324,783</u>	<u>60.6</u>	<u>309,497</u>	<u>61.7</u>
<b>Specialty</b>						
Accident & Health	69,803	10.1	52,114	9.7	56,784	11.3
Financial	48,448	7.0	34,658	6.5	6,699	1.3
Marine	6,574	1.0	9,127	1.7	9,283	1.8
Other	11,973	1.7	11,766	2.2	12,204	2.4
Total Specialty	<u>136,798</u>	<u>19.8</u>	<u>107,665</u>	<u>20.1</u>	<u>84,970</u>	<u>16.8</u>
	<u>\$ 692,651</u>	<u>100.0%</u>	<u>\$ 536,072</u>	<u>100.0%</u>	<u>\$ 502,124</u>	<u>100.0%</u>

## Gross Premiums Written by Geographic Area of Risks Insured

	Year ended December 31					
	2017		2016		2015	
	(\$ in thousands)					
U.S. and Caribbean	\$ 606,510	87.6%	\$ 432,144	80.6%	\$ 383,236	76.3%
Worldwide <sup>(1)</sup>	86,714	12.5	97,810	18.2	104,336	20.8
Europe <sup>(2)</sup>	(612)	(0.1)	6,250	1.2	14,085	2.8
Asia <sup>(2)</sup>	39	—	(132)	—	467	0.1
	<u>\$ 692,651</u>	<u>100.0%</u>	<u>\$ 536,072</u>	<u>100.0%</u>	<u>\$ 502,124</u>	<u>100.0%</u>

<sup>(1)</sup> “Worldwide” is comprised of contracts that reinsure risks in more than one geographic area and do not specifically exclude the U.S.

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

### 16. QUARTERLY FINANCIAL RESULTS (UNAUDITED)

The following table presents the quarterly financial results for each of the quarters ended during 2017:

	2017			
	Quarter ended			
	March 31	June 30	September 30	December 31
	(\$ in thousands, except per share amounts)			
<b>Revenues</b>				
Gross premiums written	\$ 197,214	\$ 174,889	\$ 181,588	\$ 138,960
Gross premiums ceded	(3,426)	(2,523)	(7,931)	(42,707)
Net premiums written	193,788	172,366	173,657	96,253
Change in net unearned premium reserves	(41,886)	(12,042)	(964)	44,832
Net premiums earned	151,902	160,324	172,693	141,085
Net investment income (loss)	11,618	(39,149)	63,976	(16,214)
Other income (expense), net	(7)	303	(520)	(336)
Total revenues	<u>163,513</u>	<u>121,478</u>	<u>236,149</u>	<u>124,535</u>
<b>Expenses</b>				
Loss and loss adjustment expenses incurred, net	104,812	106,016	168,918	122,658
Acquisition costs, net	43,211	45,429	38,011	35,089
General and administrative expenses	6,743	6,347	8,202	5,064
Total expenses	<u>154,766</u>	<u>157,792</u>	<u>215,131</u>	<u>162,811</u>
Income (loss) before income tax expense	8,747	(36,314)	21,018	(38,276)
Income tax (expense) benefit	(121)	295	(65)	342
Net income (loss) including non-controlling interest	8,626	(36,019)	20,953	(37,934)
Loss (income) attributable to non-controlling interest in related party joint venture	(252)	550	(1,078)	202
<b>Net income (loss)</b>	<u>\$ 8,374</u>	<u>\$ (35,469)</u>	<u>\$ 19,875</u>	<u>\$ (37,732)</u>
<b>Earnings (loss) per share</b>				
Basic	\$ 0.22	\$ (0.96)	\$ 0.53	\$ (1.02)
Diluted	\$ 0.22	\$ (0.96)	\$ 0.53	\$ (1.02)
<b>Weighted average number of ordinary shares used in the determination of earnings and loss per share</b>				
Basic	37,341,338	37,025,703	37,345,985	37,023,895
Diluted	37,376,649	37,042,506	37,375,273	37,023,895

The following table presents the quarterly financial results for each of the quarters ended during 2016:

	<b>2016</b>			
	<b>Quarter ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
	(\$ in thousands)			
<b>Revenues</b>				
Gross premiums written	\$ 166,792	\$ 92,237	\$ 128,205	\$ 148,838
Gross premiums ceded	(2,107)	(3,522)	(2,119)	(2,267)
Net premiums written	164,685	88,715	126,086	146,571
Change in net unearned premium reserves	(26,573)	36,867	(13,294)	(9,939)
Net premiums earned	138,112	125,582	112,792	136,632
Net investment income (loss)	28,435	(38,054)	32,945	52,857
Other income (expense), net	(271)	282	(192)	(754)
Total revenues	<u>166,276</u>	<u>87,810</u>	<u>145,545</u>	<u>188,735</u>
<b>Expenses</b>				
Loss and loss adjustment expenses incurred, net	90,668	111,376	81,467	97,304
Acquisition costs, net	38,963	35,484	25,844	34,243
General and administrative expenses	6,999	4,994	6,937	6,878
Total expenses	<u>136,630</u>	<u>151,854</u>	<u>114,248</u>	<u>138,425</u>
Income (loss) before income tax	29,646	(64,044)	31,297	50,310
Income tax (expense) benefit	(204)	258	(305)	(258)
Net income (loss) including non-controlling interest	29,442	(63,786)	30,992	50,052
Loss (income) attributable to non-controlling interest in related party joint venture	(773)	791	(981)	(856)
<b>Net income (loss)</b>	<u>\$ 28,669</u>	<u>\$ (62,995)</u>	<u>\$ 30,011</u>	<u>\$ 49,196</u>
<b>Earnings (loss) per share</b>				
Basic	\$ 0.77	\$ (1.69)	\$ 0.80	\$ 1.32
Diluted	\$ 0.77	\$ (1.69)	\$ 0.80	\$ 1.31
<b>Weighted average number of ordinary shares used in the determination of earnings and loss per share</b>				
Basic	37,107,039	37,281,392	37,323,575	37,381,714
Diluted	37,422,921	37,281,392	37,385,481	37,414,570

## 17. SUBSEQUENT EVENTS

For the month ended January 31, 2018, the Company's investments in the related party joint venture managed by DME Advisors generated a net loss of 5.5%, or approximately \$69.3 million, net of loss attributable to the non-controlling interest.

**GREENLIGHT CAPITAL RE, LTD.**  
**SUMMARY OF INVESTMENTS — OTHER THAN INVESTMENTS IN RELATED PARTIES**  
**AS OF DECEMBER 31, 2017**

(expressed in thousands of U.S. dollars)

<b>Type of Investment</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Balance Sheet Value</b>
		<b>(\$ in thousands)</b>	
Debt instruments, trading, at fair value	\$ 16,448	\$ 7,180	\$ 7,180
<b>Equity securities, trading, at fair value</b>			
Equities – listed	1,014,426	1,203,672	1,203,672
Total investments, trading	<u>\$ 1,030,874</u>	<u>\$ 1,210,852</u>	<u>\$ 1,210,852</u>
<b>Other investments, at fair value</b>			
Commodities	\$ 101,184	\$ 121,502	\$ 121,502
Private and unlisted equity funds	25,316	30,630	30,630
Total other investments, at fair value	<u>126,500</u>	<u>152,132</u>	<u>152,132</u>
Total investments	<u>\$ 1,157,374</u>	<u>\$ 1,362,984</u>	<u>\$ 1,362,984</u>

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

(expressed in thousands of U.S. dollars)

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	(\$ in thousands)	
<b>Assets</b>		
Cash and cash equivalents	\$ 84	\$ 6
Investment in subsidiaries	815,009	888,095
Notes receivable	15,355	15,164
Due from subsidiaries	876	—
<b>Total assets</b>	<b>\$ 831,324</b>	<b>\$ 903,265</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Due to subsidiaries	\$ —	\$ 29,023
Total liabilities	—	29,023
<b>Shareholders' equity</b>		
Share capital	3,736	3,737
Additional paid-in capital	503,316	500,337
Retained earnings	324,272	370,168
Total shareholders' equity	831,324	874,242
<b>Total liabilities and equity</b>	<b>\$ 831,324</b>	<b>\$ 903,265</b>

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

(expressed in thousands of U.S. dollars)

	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	(\$ in thousands)		
<b>Revenue</b>			
Investment income	\$ 34,487	\$ 952	\$ 5,962
Total revenues	34,487	952	5,962
<b>Expenses</b>			
General and administrative expenses	4,691	4,042	4,048
Net income (loss) before equity in earnings of consolidated subsidiaries	29,796	(3,090)	1,914
Equity in earnings of consolidated subsidiaries	(74,748)	47,971	(328,339)
<b>Consolidated net income (loss)</b>	<b>\$ (44,952)</b>	<b>\$ 44,881</b>	<b>\$ (326,425)</b>

SCHEDULE II (continued)

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

(expressed in thousands of U.S. dollars)

	<b>Year Ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(\$ in thousands)</b>		
<b>Cash provided by (used in) operating activities</b>			
Net income (loss)	\$ (44,952)	\$ 44,881	\$ (326,425)
Adjustments to reconcile net income (loss) to cash provided by operating activities			
Equity in earnings of consolidated subsidiaries	74,748	(47,971)	328,339
Share-based compensation expense	4,691	4,042	4,048
<b>Net change in</b>			
Due from subsidiaries	(876)	—	15,276
Due to subsidiaries	(29,023)	12,037	16,986
Net cash (used in) provided by operating activities	4,588	12,989	38,450
<b>Investing activities</b>			
Change in note receivable	(191)	(12,989)	(609)
Contributed surplus to subsidiaries, net	(1,500)	—	(20,000)
Net cash (used in) provided by investing activities	(1,691)	(12,989)	(20,836)
<b>Financing activities</b>			
Short-swing sale profit from shareholder	—	—	83
Repurchase of Class A ordinary shares	(2,819)	—	(17,692)
Net cash (used in) provided by financing activities	(2,819)	—	(17,609)
Net increase (decrease) in cash and cash equivalents	78	—	5
Cash and cash equivalents at beginning of the year	6	6	1
<b>Cash and cash equivalents at end of the year</b>	<b>\$ 84</b>	<b>\$ 6</b>	<b>\$ 6</b>
<b>Supplementary information</b>			
Non cash consideration from (to) subsidiaries, net	\$ (162)	\$ 72	\$ (227)

SCHEDULE III

**GREENLIGHT CAPITAL RE, LTD.**  
**SUPPLEMENTARY INSURANCE INFORMATION**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

(expressed in thousands of U.S. dollars)

Year	Segment	Deferred acquisition costs, net	Reserves for losses and loss adjustment expenses	Unearned premiums – gross	Net premiums earned	Net investment income (loss)	Net losses, and loss adjustment expenses	Amortization of deferred acquisition costs	Other operating expenses	Gross premiums written
2017	Property & Casualty	\$ 62,350	\$ 464,380	\$ 255,818	\$ 626,004	\$ 20,231	\$ 502,404	\$ 161,740	\$ 26,356	\$ 692,651
2016	Property & Casualty	\$ 61,022	\$ 306,641	\$ 222,527	\$ 513,118	\$ 76,183	\$ 380,815	\$ 134,534	\$ 25,808	\$ 536,072
2015	Property & Casualty	\$ 59,823	\$ 305,997	\$ 211,954	\$ 408,387	\$(281,924)	\$ 317,097	\$ 116,207	\$ 23,434	\$ 502,124

SCHEDULE IV

**GREENLIGHT CAPITAL RE, LTD.**  
**SUPPLEMENTARY REINSURANCE INFORMATION**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

(expressed in thousands of U.S. dollars)

Year	Segment	Direct gross premiums	Premiums ceded to other companies	Premiums assumed from other companies	Net written premiums	Percentage of amount assumed to net
2017	Property & Casualty	\$ —	\$ 56,587	\$ 692,651	\$ 636,064	109%
2016	Property & Casualty	\$ —	\$ 10,015	\$ 536,072	\$ 526,057	102%
2015	Property & Casualty	\$ —	\$ 9,001	\$ 502,124	\$ 493,123	102%

## EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
3.1	<u>Third Amended and Restated Memorandum and Articles of Association as revised by special resolution on July 10, 2008 (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q filed on August 7, 2008)</u>
4.1	<u>Form of Specimen Certificate of Class A ordinary shares (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement No. 333-139993)</u>
4.2	<u>Share Purchase Option, dated August 11, 2004, by and between the Registrant and First International Capital Holdings, Ltd. (incorporated by reference to Exhibit 4.2 of the Company's Registration Statement No. 333-139993)</u>
10.1	<u>Form of Securities Purchase Agreement for Class A ordinary shares by and between the Registrant and each of the subscribers thereto (incorporated by reference to Exhibit 10.2 of the Company's Registration Statement No. 333-139993)</u>
10.2 (1)	<u>Greenlight Capital Re, Ltd. Amended and Restated 2004 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed on March 9, 2017).</u>
10.3 (1)	<u>Form of Restricted Stock Award Agreement by and between the Registrant and the Grantee (incorporated by reference to Exhibit 10.6 of the Company's Registration Statement No. 333-139993)</u>
10.4 (1)	<u>Form of Stock Option Agreement (incorporated by reference to Exhibit 10.7 of the Company's Registration Statement No. 333-139993)</u>
10.5 (1)	<u>Greenlight Capital Re, Ltd. Form of Directors' Restricted Stock Award (incorporated by reference to Exhibit 10.20 of the Company's Registration Statement No. 333-139993)</u>
10.6 (1)	<u>Greenlight Capital Re, Ltd. Form of Employees' Restricted Stock Award (incorporated by reference to Exhibit 10.21 of the Company's Registration Statement No. 333-139993)</u>
10.7	<u>Form of Shareholders' Agreement, dated August 11, 2004, by and among the Registrant and each of the subscribers (incorporated by reference to Exhibit 10.8 of the Company's Registration Statement No. 333-139993)</u>
10.8	<u>Form of Deed of Indemnity between the Registrant and each of its directors and certain of its officers (incorporated by reference to Exhibit 10.11 of the Company's Registration Statement No. 333-139993)</u>
10.9 (1)	<u>Amended and Restated Employment Agreement, dated as of December 30, 2008, by and among Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd. and Tim Courtis (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on January 2, 2009)</u>
10.10 (1)	<u>Concurrent Private Placement Stock Purchase Agreement for Class B Ordinary Shares, dated January 11, 2007, by and between the Company and David Einhorn (incorporated by reference to Exhibit 10.16 of the Company's Registration Statement No. 333-139993)</u>
10.11	<u>Service Agreement, dated as of February 21, 2007, between DME Advisors, LP and Greenlight Capital Re, Ltd. (incorporated by reference to Exhibit 10.17 of the Company's Registration Statement No. 333-139993)</u>
10.12 (1)	<u>Amendment No. 1, dated February 18, 2009, to the Amended and Restated Employment Agreement, dated as of December 30, 2008, by and among Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd. and Tim Courtis (incorporated by reference to Exhibit 10.26 of the Company's Form 10-K filed on February 23, 2009)</u>
10.15	<u>Amended and Restated Letter of Credit Agreement, executed June 17, 2010, between Greenlight Reinsurance, Ltd. and Butterfield Bank (Cayman) Limited (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on August 2, 2010)</u>
10.17	<u>Letter of Understanding, dated June 10, 2010, between Greenlight Reinsurance, Ltd. and Citibank, N.A (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on August 2, 2010)</u>
10.18	<u>Letter of Credit Agreement, dated August 20, 2010, between Greenlight Reinsurance, Ltd. and Citibank Europe plc. (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on November 2, 2010)</u>



- 10.19 Master Reimbursement Agreement, dated August 20, 2010, between Greenlight Reinsurance, Ltd. and Citibank Europe plc (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q filed on November 2, 2010)
- 10.20 Reinsurance Deposit Agreement, dated August 20, 2010, between Greenlight Reinsurance, Ltd. and Citibank Europe plc. (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on November 2, 2010)
- 10.22 Letter of Credit Agreement, effective as of February 3, 2011, between Greenlight Reinsurance, Ltd. and JPMorgan Chase Bank N.A. (incorporated by reference to Exhibit 10.38 of the Company's Form 10-K filed on February 22, 2011)
- 10.23 (1) Amended and Restated Employment Agreement, dated July 26, 2012, by and among Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd. and Barton Hedges (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on July 30, 2012)
- 10.24 (1) Employment Agreement, dated August 15, 2006, by and among Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd. and Brendan Barry (incorporated by reference to Exhibit 10.24 of the Company's Form 10-K filed on February 21, 2012)
- 10.27 Amended letter of credit agreement, effective as of December 16, 2011, between Greenlight Reinsurance, Ltd. and JPMorgan Chase Bank N.A. (incorporated by reference to Exhibit 10.27 of the Company's Form 10-K filed on February 21, 2012)
- 10.30 (1) Employment Agreement, dated July 31, 2014, by and among Greenlight Reinsurance, Ltd. and James McNichols (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on November 3, 2014)
- 10.31 Amendment Letter Agreement between Greenlight Reinsurance, Ltd. and Butterfield Bank (Cayman) Limited, effective June 1, 2015, amending the Amended and Restated Letter of Credit Agreement dated June 17, 2010 (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on August 3, 2015)
- 10.32 Amended and Restated Letter of Credit Facility Agreement, dated May 7, 2015 between Greenlight Reinsurance, Ltd. and Bank of America, N.A., amending the Amended Letter of Credit Facility Agreement dated December 16, 2011 (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q filed on August 3, 2015)
- 10.33 Letter Agreement between Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd., Greenlight Reinsurance Ireland, Ltd., DME Advisors, LLC and DME Advisors, LP., dated June 17, 2015 (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on August 3, 2015)
- 10.34 Third Amended and Restated Agreement by and among Greenlight Reinsurance, Ltd., Greenlight Reinsurance Ireland, a Designated Activity Company, Greenlight Capital Re, Ltd. (for limited purposes), DME Advisors, LLC and DME Advisors, LP (for limited purposes), dated as of September 30, 2016 and effective as of January 1, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on October 6, 2016).
- 10.35 Amended and Restated Investment Advisory Agreement among DME Advisors, LP, The Venture Among Greenlight Reinsurance, Ltd., Greenlight Reinsurance Ireland, a Designated Activity Company, and DME Advisors, LLC, Greenlight Reinsurance, Ltd., Greenlight Reinsurance Ireland, a Designated Activity Company and DME Advisors, LLC., dated as of September 30, 2016 and effective as of January 1, 2017 (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on October 6, 2016).
- 10.36 Deed of Settlement and Release dated December 15, 2016, among Barton Hedges, Greenlight Capital Re, Ltd., and Greenlight Reinsurance, Ltd. (incorporated by reference to Exhibit 99.2 to the Company's Form 8-K filed on December 19, 2016).
- 10.37 Consulting agreement dated December 16, 2016, among Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd. and Leonard Goldberg (incorporated by reference to Exhibit 99.3 to the Company's Form 8-K filed on December 19, 2016).
- 10.38 (1) Employment Agreement by and between Greenlight Capital Re, Ltd, Greenlight Reinsurance, Ltd. and Simon Burton dated July 1, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on June 2, 2017).

- 10.39 (1) Employment Agreement by and between Greenlight Capital Re, Ltd., Greenlight Reinsurance, Ltd. and Michael Belfatti dated August 15, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on August 16, 2017)
- 10.40 (1) Employment Agreement by and between Greenlight Reinsurance Ireland, DAC and Patrick O'Brien dated February 16, 2018.
- 12.1 Ratio of earnings to fixed charges and preferred share dividends.
- 21.1 Subsidiaries of the registrant
- 23.1 Consent of BDO USA, LLP
- 31.1 Certification of the Chief Executive Officer of Greenlight Capital Re, Ltd. filed herewith pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer of Greenlight Capital Re, Ltd. filed herewith pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Chief Executive Officer of Greenlight Capital Re, Ltd. furnished herewith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of the Chief Financial Officer of Greenlight Capital Re, Ltd. furnished herewith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Shareholders' Equity; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to Consolidated Financial Statements.

(1) Management contract or compensatory plan or arrangement.



