Greenlight Capital Re, Ltd.
Form 10-Q
November 04, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended September 30, 2008.
	or
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to

Commission file number 001-33493

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

CAYMAN ISLANDS (State or other jurisdiction of incorporation or organization)	N/A (I.R.S. employer identification no)
802 WEST BAY ROAD THE GRAND PAVILION PO BOX 31110 GRAND CAYMAN CAYMAN ISLANDS (Address of principal executive offices)	KY1-1205 (Zip code)

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

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

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

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 o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

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

Class A Ordinary Shares, $.10 par value	30,010,636
(Class)	(Outstanding as of November 4, 2008)

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PART I — FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 2008 and December 31, 2007
(Expressed in thousands of U.S. dollars, except per share and share amounts)

	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
Investments in securities		
Debt securities, trading, at fair value	$ 8,458	$ 1,520
Equity securities, trading, at fair value	368,864	570,440
Other investments, at fair value	12,165	18,576
Total investments in securities	389,487	590,536
Cash and cash equivalents	216,137	64,192
Restricted cash and cash equivalents	400,360	371,607
Financial contracts receivable, at fair value	6,323	222
Reinsurance balances receivable	66,006	43,856
Loss and loss adjustment expense recoverables	9,480	6,721
Deferred acquisition costs	17,804	7,302
Unearned premiums ceded	10,147	8,744
Other assets	956	965
Total assets	$ 1,116,700	$ 1,094,145
Liabilities and Shareholders' Equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$ 369,504	$ 332,706
Financial contracts payable, at fair value	10,272	17,746
Loss and loss adjustment expense reserves	68,504	42,377
Unearned premium reserves	99,988	59,298
Reinsurance balances payable	34,035	19,140
Funds withheld	4,720	7,542
Other liabilities	5,099	2,869
Minority interest in joint venture	6,319	—
Performance compensation payable to related party	—	6,885
Total liabilities	598,441	488,563
Shareholders' equity		
Preferred share capital (par value $0.10; authorized, 50,000,000; none issued)	—	—
Ordinary share capital (Class A: par value $0.10; authorized, 100,000,000; issued and outstanding 30,010,636, (2007: 29,847,787); Class B: par value $0.10; authorized, 25,000,000; issued and outstanding, 6,254,949 (2007: 6,254,949))	3,627	3,610
Additional paid-in capital	479,166	476,861
Retained earnings	35,466	125,111
Total shareholders' equity	518,259	605,582
Total liabilities and shareholders' equity	$ 1,116,700	$ 1,094,145

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

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
For the three and nine months ended September 30, 2008 and 2007
(Expressed in thousands of U.S. dollars, except per share and share amounts)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenues				
Gross premiums written	$ 37,684	$ 19,766	$ 133,810	$ 123,275
Gross premiums ceded	1,169	(209)	(13,718)	(28,486)
Net premiums written	38,853	19,557	120,092	94,789
Change in net unearned premium reserves	(10,256)	11,155	(39,321)	(18,184)
Net premiums earned	28,597	30,712	80,771	76,605
Net investment (loss) income	(117,809)	(4,776)	(92,546)	707
Total revenues	(89,212)	25,936	(11,775)	77,312
Expenses				
Loss and loss adjustment expenses incurred, net	14,777	11,339	36,238	31,465
Acquisition costs, net	12,204	13,458	31,361	30,685
General and administrative expenses	3,452	3,232	11,122	9,078
Total expenses	30,433	28,029	78,721	71,228
Net (loss) income before minority interest	(119,645)	(2,093)	(90,496)	6,084
Minority interest in loss of joint venture	1,212	—	851	—
Net (loss) income	$ (118,433)	$ (2,093)	$ (89,645)	$ 6,084
(Loss) earnings per share				
Basic	$ (3.29)	$ (0.06)	$ (2.49)	$ 0.21
Diluted	(3.29)	(0.06)	(2.49)	0.21
Weighted average number of ordinary shares used in the determination of				
Basic	35,995,236	35,981,312	35,987,778	28,393,955
Diluted	35,995,236	35,981,312	35,987,778	28,855,816

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

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)
For the nine months ended September 30, 2008 and 2007
(Expressed in thousands of U.S. dollars)

	September 30, 2008	September 30, 2007
Ordinary share capital		
Balance — beginning of period	$ 3,610	$ 2,156
Issue of Class A ordinary share capital	17	1,191
Issue of Class B ordinary share capital	—	263
Balance — end of period	$ 3,627	$ 3,610
Additional paid-in capital		
Balance — beginning of period	$ 476,861	$ 219,972
Issue of Class A ordinary share capital	9	207,144
Issue of Class B ordinary share capital	—	49,737
IPO expenses	—	(2,629)
Stock options and awards expense	2,296	2,233
Balance — end of period	$ 479,166	$ 476,457
Retained earnings		
Balance — beginning of period	$ 125,111	$ 90,039
Net (loss) income	(89,645)	6,084
Balance — end of period	$ 35,466	$ 96,123
Total shareholders' equity	$ 518,259	$ 576,190

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

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
For the nine months ended September 30, 2008 and 2007
(Expressed in thousands of U.S. dollars)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Cash provided by (used in)		
Operating activities		
Net (loss) income	$ (89,645)	$ 6,084
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities		
Net change in unrealized gains and losses on securities and financial contracts	166,213	16,062
Net realized gains on securities and financial contracts	(69,605)	(32,193)
Foreign exchange gain on restricted cash and cash equivalents	(7,600)	(1,380)
Minority interest in loss of joint venture	851	—
Stock options and awards expense	2,313	2,233
Depreciation	30	30
Purchases of securities	—	(742,843)
Sales of securities	—	731,776
Change in		
Restricted cash and cash equivalents	—	(247,773)
Financial contracts receivable, at fair value	—	(681)
Reinsurance balances receivable	(22,150)	(33,757)
Loss and loss adjustment expense recoverables	(2,759)	(7,462)
Deferred acquisition costs	(10,502)	5,006
Unearned premiums ceded	(1,403)	(16,207)
Other assets	(21)	544
Financial contracts payable, at fair value	—	23,773
Loss and loss adjustment expense reserves	26,127	34,398
Unearned premium reserves	40,690	34,448
Reinsurance balances payable	14,895	18,128
Funds withheld	(2,822)	5,677
Other liabilities	2,230	183
Performance compensation payable to related party	(6,885)	(14,474)
Net cash provided by (used in) operating activities	39,957	(218,428)
Investing activities		
Purchases of securities and financial contracts	(1,082,866)	—
Sales of securities and financial contracts	1,210,530	—
Restricted cash and cash equivalents	(21,153)	—
Minority interest in joint venture	5,468	—
Net cash provided by investing activities	111,979	—
Financing activities		
Net proceeds from share issue	—	255,706
Net proceeds from exercise of stock options	9	—
Net cash provided by financing activities	9	255,706

Net increase in cash and cash equivalents		151,945		37,278
Cash and cash equivalents at beginning of the period		64,192		82,704
Cash and cash equivalents at end of the period	$	216,137	$	119,982
Supplementary information				
Interest paid in cash	$	11,289	$	2,360
Interest received in cash		9,850		10,764

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

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GREENLIGHT CAPITAL RE, LTD.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2008 and 2007

1. GENERAL

Greenlight Capital Re, Ltd. ("GLRE") was incorporated as an exempted company under the Companies Law of the Cayman Islands on July 13, 2004. GLRE's wholly owned subsidiary, Greenlight Reinsurance, Ltd. (the "Subsidiary"), provides global specialty property and casualty reinsurance. The Subsidiary has an unrestricted Class "B" insurance license under Section 4(2) of the Cayman Islands Insurance Law. The Subsidiary commenced underwriting in April 2006. In August 2004, GLRE raised gross proceeds of $212.2 million from private placements of Class A and Class B ordinary shares. In May 2007, GLRE raised proceeds of $208.3 million, net of underwriting fees, in an initial public offering of Class A ordinary shares as well as an additional $50.0 million from a private placement of Class B ordinary shares.

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

As used herein, the "Company" refers collectively to GLRE and the Subsidiary.

These unaudited condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2007. In the opinion of management, these unaudited condensed consolidated financial statements reflect all the normal recurring adjustments considered necessary for a fair presentation of the Company's financial position and results of operations as of the dates and for the periods presented.

The results for the nine months ended September 30, 2008 are not necessarily indicative of the results expected for the full year.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated financial statements include the accounts of GLRE and the consolidated financial statements of the Subsidiary. All significant intercompany transactions and balances have been eliminated on consolidation. These condensed consolidated financial statements also include the accounts of the joint venture created between the Company and DME Advisors, LP ("DME") effective January 1, 2008. Please refer to Note 6 for more details relating to the joint venture. DME's share of interest in the joint venture is recorded as a minority interest.

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.

Restricted Cash and Cash Equivalents

The Company is required to maintain cash in segregated accounts with prime brokers and swap counterparties. The amount of restricted cash held by prime brokers is used to support the liability created from securities sold, not yet purchased, as well as net cash from foreign currency transactions. Cash held for the benefit of swap counterparties is used to collateralize the current value of any amounts that may be due to the counterparty under the swap contract.

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Loss and Loss Adjustment Expense Reserves and Recoverables

The Company establishes reserves for contracts based on estimates of the ultimate cost of all losses including losses incurred but not reported. These estimated ultimate reserves are based on reports received from ceding companies, historical experience as well as the Company's own actuarial estimates. These estimates are reviewed periodically and adjusted when deemed necessary. Since reserves are based on estimates, the final settlement of losses may vary from the reserves established and any adjustments to the estimates, which may be material, are recorded in the period they are determined.

Loss and loss adjustment expense recoverables include the amounts due from retrocessionaires for paid and unpaid loss and loss adjustment expenses on retrocession agreements. Ceded losses incurred but not reported are estimated based on the Company's actuarial estimates. These estimates are reviewed periodically and adjusted when deemed necessary. The Company may not be able to ultimately recover the loss and loss adjustment expense recoverable amounts due to the retrocessionaires' inability to pay. The Company regularly evaluates the financial condition of its retrocessionaires and records provisions for uncollectible reinsurance recoverable when recovery becomes unlikely.

Financial Instruments

Investments in Securities and Securities Sold, Not Yet Purchased

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," which establishes a framework for measuring fair value by creating a hierarchy of fair value measurements based on inputs used in deriving fair values and enhances disclosure requirements for fair value measurements. The adoption of SFAS No. 157 had no material impact to the Company's results of operations or financial condition as there were no material changes in the valuation techniques used by the Company to measure fair value. The Company's investments in debt and equity securities that are classified as "trading securities" are carried at fair value. The fair values of the listed equity and debt investments are derived based on quoted prices (unadjusted) in active markets for identical assets (Level 1 inputs). The fair values of private debt securities are derived based on inputs that are observable, either directly or indirectly, such as market maker or broker quotes reflecting recent transactions (Level 2 inputs).

The Company's "Other Investments" may include investments in private equity securities, limited partnerships, futures, exchange traded options and over-the-counter options ("OTC"), which are all carried at fair value. The Company maximizes the use of observable direct or indirect inputs (Level 2 inputs) when deriving the fair values for "Other Investments". For limited partnerships and private equity securities, where observable inputs are not available, the fair values are derived based on unobservable inputs (Level 3 inputs) such as management's assumptions developed from available information, using the services of the investment advisor. Amounts invested in exchange traded and OTC call and put options are recorded as an asset or liability at inception. Subsequent to initial recognition unexpired exchange traded option contracts are recorded at fair market value based on quoted prices in active markets (Level 1 inputs). For OTC options or exchange traded options where a quoted price in an active market is not available, fair values are derived based upon observable inputs (Level 2 inputs) such as multiple market maker quotes.

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

Premiums and discounts on debt securities are amortized into net investment income over the life of the security. 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.

Financial Contracts

The Company enters into financial contracts with counterparties as part of its investment strategy. Financial contracts which include total return swaps, credit default swaps, and other derivative instruments are recorded at their fair value with any unrealized gains and losses included in net investment income in the condensed consolidated statements of income. Financial contracts receivable represent derivative contracts where the Company is entitled to receive payments upon settlement of the contract. Financial contract payable represent derivative contracts whereby the Company is obligated to make payments upon settlement on the contract.

Total return swap agreements, included on the condensed consolidated balance sheets as financial contracts receivable and financial contracts payable, are derivative financial instruments entered into 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 does not own, over a specified time frame. In addition, the Company may also be obligated to pay or receive other payments based on either interest rate, dividend payments and receipts, or foreign exchange movements during a specified period. The Company measures its rights or obligations to the counterparty based on the fair market value movements of the underlying security together with any other payments due. These contracts are carried at fair value, derived based on observable inputs (Level 2 inputs) with the resultant unrealized gains and losses reflected in net investment income in the condensed consolidated statements of income. Additionally, any changes in the value of amounts received or paid on swap contracts are reported as a gain or loss in net investment income in the condensed consolidated statements of income.

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Financial contracts may also include exchange traded futures contracts that are based on the movement of a particular index. Where such contracts are traded in an active market, the Company's obligations or rights on these contracts are recorded at fair value measured based on the observable quoted prices of the same or similar financial contract in an active market (Level 1) or on broker quotes which reflect market information from actual transactions (Level 2).

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

Earnings Per Share

Basic earnings per share are based on weighted average ordinary shares outstanding during the three and nine months ended September 30, 2008 and 2007 and exclude dilutive effects of stock options and unvested stock awards. Diluted earnings per share assumes the exercise of all dilutive stock options and stock awards using the treasury stock method.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Weighted average shares outstanding	35,995,236	35,981,312	35,987,778	28,393,955
Effect of dilutive service provider stock options	—	—	—	174,800
Effect of dilutive employee and director options and stock awards	—	—	—	287,061
	35,995,236	35,981,312	35,987,778	28,855,816
Anti-dilutive stock options and stock award outstanding	1,878,689	1,702,424	1,878,689	208,000

Due to the Company's net loss for the three and nine months ended September 30, 2008, all stock options and stock awards outstanding have been excluded from the computation of diluted loss per share as their inclusion would have been anti-dilutive for the periods. Similarly for the three months ended September 30, 2007, all stock options and stock awards outstanding have been excluded from the computation of diluted loss per share as their inclusion would have been anti-dilutive.

Recently Issued Accounting Standards

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

In February 2008, the FASB approved the issuance of FASB Staff Position ("FSP") FAS 157-2. FSP FAS 157-2 defers the effective date of SFAS No. 157 until January 1, 2009 for non-financial assets and non-financial liabilities except those items recognized or disclosed at fair value on an annual or more frequently recurring basis.

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset when the Market for That Asset is Not Active." This FSP clarifies the application of FASB Statement No. 157, "Fair Value

Measurements", in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP is effective from October 10, 2008, including prior periods for which financial statements have not been issued. The implementation of this FSP did not have a material impact on the Company's results of operation or financial position.

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

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

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In December 2007, the FASB issued SFAS No. 141 (Revised), “Business Combinations.” SFAS No. 141 (Revised) is effective for acquisitions during the fiscal years beginning after December 15, 2008 and early adoption is prohibited. This statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Management is reviewing this guidance; however, the effect of the statement’s implementation will depend upon the extent and magnitude of acquisitions, if any, after December 31, 2008.

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

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

In March 2008, the FASB issued SFAS No. 163, “Accounting for Financial Guarantee Insurance Contracts — an interpretation of FASB Statement No. 60.” SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. Earlier application is not permitted except for disclosures about the risk-management activities of the insurance enterprise which is effective for the first interim period beginning after the issuance of SFAS No. 163. This statement requires an insurance enterprise to recognize a claim liability prior to an insured event when there is evidence that credit deterioration has occurred in an insured financial obligation. This statement also clarifies how FASB Statement No. 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Finally, this statement requires expanded disclosures about financial guarantee contracts focusing on the insurance enterprise’s risk-management activities in evaluating credit deterioration in its insured financial obligations. The effect of the statement’s implementation is not expected to be material to the Company’s results of operations or financial position. As of September 30, 2008, the Company had no financial guarantee contracts that required expanded disclosures under this statement.

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

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

Reclassifications

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

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3. FINANCIAL INSTRUMENTS

Fair Value Hierarchy

Effective January 1, 2008, the Company adopted SFAS No. 157 and SFAS No. 159. As a result, all of the Company's "trading securities" are carried at fair value, and the net unrealized gains or losses are included in net investment income in the condensed consolidated statements of income. For private equity securities, the unrealized gains and losses, if any, which would have been previously recorded in other comprehensive income, are included in net investment income in the condensed consolidated statements of income in order to apply a consistent treatment for the Company's entire investment portfolio. The change in treatment resulted in no cumulative-effect adjustment to the opening balance of retained earnings. The fair values of the private equity securities, existing at the date the Company adopted SFAS No. 159, remained unchanged from the carrying values of those securities immediately prior to electing the fair value option.

The following table presents the Company's investments, categorized by the level of the fair value hierarchy as of September 30, 2008:

	Fair Value Measurements as of September 30, 2008			
Description	Total as of September 30, 2008	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	($ in thousands)			
Debt securities	$ 8,458	$ —	$ 2,748	$ 5,710
Listed equity securities	368,864	368,864	—	—
Private equity securities	12,165	—	1,607	10,558
Financial contracts receivable (payable), net	(3,949)	1,421	(5,370)	—
	$ 385,538	$ 370,285	$ (1,015)	$ 16,268
Listed equity securities, sold not yet purchased	$ (369,504)	$ (369,504)	$ —	$ —
	$ (369,504)	$ (369,504)	$ —	$ —

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Three Months Ended September 30, 2008			Nine Months Ended September 30, 2008		
	Debt Securities	Private Equity Securities	Total	Debt Securities	Private Equity Securities	Total
	($ in thousands)					
Beginning balance	$ 3,067	$ 6,263	$ 9,330	$ 865	$ 8,115	$ 8,980
Purchases, sales, issuances, and settlements, net	3,066	4,066	7,132	5,270	7,631	12,901
Total realized and unrealized gains (losses) included in earnings, net	(423)	229	(194)	(425)	17	(408)

Transfers in and/or out of Level 3	—	—	—	—	(5,205)	(5,205)
Ending balance	$ 5,710	$ 10,558	$ 16,268	$ 5,710	$ 10,558	$ 16,268

Transfers from Level 3 represent the fair value of private equity securities of an entity that were transferred to Level 1 when the entity's shares were publicly listed during the second quarter of fiscal 2008, resulting in fair value being based on the quoted price in an active market.

For the three and nine months ended September 30, 2008, change in unrealized losses of $0.2 million and $0.4 million respectively, on securities still held at the reporting date, and valued using unobservable inputs, are included in net investment income in the condensed consolidated statements of income. There were no realized gains or losses for the three and nine months ended September 30, 2008, relating to securities valued using unobservable inputs.

Other Investments

"Other Investments" include options as well as private equity securities for which quoted prices in active markets are not readily available. Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer, a specified underlying security at a specified price on or before a specified date. The Company enters into option contracts to meet certain investment objectives. For exchange traded option contracts, the exchange acts as the counterparty to specific transactions and therefore bears the risk of delivery to and from counterparties of specific positions. For OTC options a dealer acts as the counterparty and therefore the Company is exposed to credit risk to the extent the dealer is unable to meet its obligations. As of September 30, 2008, the Company did not hold any exchange traded or OTC options.

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As of September 30, 2008, the following securities were included in “Other Investments”:

	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
		($ in thousands)		
Private equity securities	$ 13,631	$ 285	$ (1,751)	$ 12,165
	$ 13,631	$ 285	$ (1,751)	$ 12,165

As of December 31, 2007, the following securities were included in “Other Investments”:

	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
		($ in thousands)		
Private equity securities	$ 10,932	$ 150	$ (247)	$ 10,835
Call options	1,943	776	(1,409)	1,310
Put options	2,821	3,266	(1,182)	4,905
Commodity futures	—	1,526	—	1,526
	$ 15,696	$ 5,718	$ (2,838)	$ 18,576

During the nine months ended September 30, 2007, other-than-temporary impairment losses on private equity securities of $0.3 million were reported and included in net realized gains on securities within net investment income, in the condensed consolidated statements of income.

Financial Contracts Receivable and Payable

As of September 30, 2008, the following financial contracts were included in "Financial Contracts Receivable":

	Fair Market Value ($ in thousands)
Credit default swaps, purchased - Corporate debt	$ 2,345
Credit default swaps, purchased - Sovereign debt	1,923
Index linked futures	1,421
Total return swaps - Equities	634
	$ 6,323

As of September 30, 2008, the following financial contracts were included in "Financial Contracts Payable":

	Fair Market Value ($ in thousands)
Credit default swap, issued - Corporate debt	$ (5,794)
Total return swaps - Equities	(4,478)
	$ (10,272)

As of September 30, 2008, included in financial contracts payable, was a credit default swap (CDS) issued by the Company relating to the debt issued by another entity ("reference entity"). The CDS has a term of 5 years and a notional amount of $14 million. Under this contract, the Company receives fees for guaranteeing the debt and in return will be obligated to pay the notional amount to the counterparty if the reference entity defaults under its debt

obligations. As of September 30, 2008, based on the assessment conducted by the Company's investment advisor, the risk of default does not appear to be likely. As of September 30, 2008, the reference entity had a financial strength rating of (A2) and a surplus notes rating of (Baa1) from Moody's Investors Service. The fair market value of the CDS at September 30, 2008 was $5.8 million which was determined based on broker quotes obtained for identical or similar contracts traded in an active market (Level 2 inputs).

4. RETROCESSION

The Company utilizes retrocession agreements to reduce the risk of loss on business assumed. At September 30, 2008, the Company had in place coverage that provide for recovery of a portion of loss and loss expenses incurred on certain contracts. Loss and loss adjustment expense recoverables from the retrocessionaires are recorded as assets. For the nine months ended September 30, 2008, loss and loss adjustment expenses incurred are net of loss and loss expenses recovered and recoverable of $9.2 million (2007: $9.7 million). Retrocession contracts do not relieve the Company from its obligations to policyholders. Failure of retrocessionaires to honor their obligations could result in losses to the Company. The Company regularly evaluates the financial condition of its retrocessionaires. At September 30, 2008, the Company had loss and loss adjustment expense recoverables of $0.2 with a retrocessionaire rated "A+ (superior)" by A.M. Best Company. At December 31, 2007, the Company had loss and loss adjustment expense recoverables of $1.3 million with a retrocessionaire rated "A (excellent)" by A.M. Best Company. Additionally, at September 30, 2008, the Company had loss and loss adjustment expense recoverables of $9.3 million (2007: $5.4 million) with two unrated retrocessionaires. At September 30, 2008, the Company retained funds and other collateral from the unrated retrocessionaires for amounts in excess of the loss recoverable asset, and the Company has recorded no provision for uncollectible losses recoverable.

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5. SHARE CAPITAL

On January 10, 2007, 1,426,630 Class B ordinary shares were transferred from Greenlight Capital Investors, LLC ("GCI") to its underlying owners and automatically converted into an equal number of Class A ordinary shares on a one-for-one basis, upon transfer. The remaining Class B ordinary shares were transferred from GCI to David Einhorn, the Chairman of the Company's Board of Directors and a principal shareholder of the Company, and remained as Class B ordinary shares.

On May 30, 2007, the Company completed the sale of 11,787,500 Class A ordinary shares at $19.00 per share in an initial public offering. Included in the 11,787,500 shares sold were 1,537,500 shares purchased by the underwriters to cover over-allotments. Concurrently, 2,631,579 Class B ordinary shares were sold at $19.00 per share as part of a private placement. The net proceeds to the Company of the initial public offering and private placement were approximately $255.7 million after the deduction of underwriting fees and other offering expenses.

On August 5, 2008, the Board adopted a share repurchase plan. Under the share repurchase plan, the Board authorized the Company to purchase up to two million of its Class A ordinary shares from time to time. Class A ordinary shares may be purchased in the open market or through privately negotiated transactions. The timing of such repurchases and actual number of shares repurchased will depend on a variety of factors including price, market conditions and applicable regulatory and corporate requirements. The share repurchase plan, which expires on June 30, 2011, does not require the Company to repurchase any specific number of shares and may be modified, suspended or terminated at any time without prior notice. As of the date of this filing, no Class A ordinary shares had been repurchased pursuant to the share repurchase plan.

During the nine months ended September 30, 2008, 141,465 (2007: 108,160) restricted shares of Class A ordinary shares were issued to employees pursuant to the Company's stock incentive plan. These shares contain certain restrictions relating to, among other things, vesting, forfeiture in the event of termination of employment and transferability. Each of these restricted shares will vest on March 24, 2011, subject to the grantee's continued service with the Company.

During the nine months ended September 30, 2008, the Company also issued to certain directors 20,724 (2007: 13,264) restricted shares of Class A ordinary shares as part of the directors' remuneration. Each of these restricted shares issued to the directors contain similar restrictions to those issued to employees and these shares will vest on the earlier of the first anniversary of the share issuance or the Company's next annual general meeting, subject to the grantee's continued service with the Company.

During the nine months ended September 30, 2008, 660 stock options were exercised which had a weighted average exercise price of $13.85. For any options exercised, the Company issues new Class A ordinary shares from the shares authorized for issuance as part of the Company's stock incentive plan. The intrinsic value of options exercised during the nine months ended September 30, 2008, was $6,067. During the nine months ended September 30, 2007, no stock options were exercised.

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

	September 30, 2008		September 30, 2007	
	Class A	Class B	Class A	Class B
Balance — beginning of period	29,847,787	6,254,949	16,507,228	5,050,000
Issue of ordinary shares	162,849	—	11,913,929	2,631,579
Transfer from Class B to Class A	—	—	1,426,630	(1,426,630)
Balance — end of period	30,010,636	6,254,949	29,847,787	6,254,949

During the nine months ended September 30, 2008, the Company granted 80,000 (2007: 50,000) Class A ordinary share purchase options to the Chief Executive Officer, pursuant to his employment contract. These options vest 25% on the date of grant, and 25% each in 2009, 2010 and 2011. The options expire after 10 years from grant date. The Company uses the Black-Scholes pricing model to determine the valuation of these options and has applied the assumptions set forth in the following table:

	2008	2007
Risk free rate	3.99%	4.79%
Estimated volatility	30.00%	30.00%
Expected term	10.00 years	10.00 years
Dividend yield	0.00%	0.00%
Weighted average exercise price	$ 29.39	$ 19.60

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

At the present time, the Board of Directors does not anticipate that any dividends will be declared during the expected term of the options. The Company uses graded vesting for expensing employee stock options. The total compensation cost expensed for the nine months ended September 30, 2008 related to employee and director stock options was $1.2 million (2007: $1.9 million). At September 30, 2008, the total compensation cost related to non-vested options not yet recognized was $0.9 million (2007: $1.8 million) to be recognized over a weighted average period of 1.2 years (2007: 1.6 years) assuming no forfeitures given that all employees are expected to complete their service period for vesting of the options.

Employee and director stock option activity during the nine months ended September 30, 2008 and year ended December 31, 2007 was as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Balance at December 31, 2006	1,131,000	$ 11.83	$ 6.01
Granted	50,000	$ 19.60	$ 10.18
Exercised	—	—	—
Forfeited	(2,000)	12.05	6.17
Expired	—	—	—
Balance at December 31, 2007	1,179,000	$ 12.19	$ 6.20
Granted	80,000	$ 29.39	$ 8.69
Exercised	(660)	13.85	7.13
Forfeited	—	—	—
Expired	—	—	—
Balance at September 30, 2008	1,258,340	$ 13.29	$ 6.36

At September 30, 2008, the weighted-average remaining contractual term for options outstanding was 7.5 years (December 31, 2007: 8.09 years).

At September 30, 2008, 912,000 (December 31, 2007: 553,000) stock options were exercisable. These options had a weighted-average exercise price of $11.13 (December 31, 2007: $11.61) and a weighted-average remaining contractual term of 6.9 years (December 31, 2007: 7.9 years).

The weighted average grant date fair value of options granted during the nine months ended September 30, 2008, was $8.69 (year ended December 31, 2007: $10.18). The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2008 was $12.2 million and $9.9 million, respectively (December 31, 2007: $10.2 million and $5.1 million). During the nine months ended September 30, 2008, 359,000 options vested (year ended December 31, 2007: 553,000).

6. RELATED PARTY TRANSACTIONS

Investment Advisory Agreement

The Company was party to an Investment Advisory Agreement (the "Investment Agreement") with DME until December 31, 2007. DME is a related party and an affiliate of David Einhorn, Chairman of the Company's Board of

Directors (the "Board") and the beneficial owner of all of the issued and outstanding Class B ordinary shares. Effective January 1, 2008, the Company terminated the Investment Agreement and entered into an agreement (the "Advisory Agreement") wherein the Company and DME agreed to create a joint venture for the purposes of managing certain jointly held assets. Pursuant to this agreement, there were no changes to the monthly management fee or performance compensation contained in the Investment Agreement.

Pursuant to the Advisory Agreement, performance compensation equal to 20% of the net income of the Company's share of the account managed by DME is allocated, subject to a loss carry forward provision, to DME's account. Included in net investment income for both the three months and nine months ended September 30, 2008 is performance compensation expense of $0 (2007: $1.2 million and $0.1 million respectively). At September 30, 2008 and December 31, 2007, $0 and $6.9 million, respectively, remained payable.

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Additionally, pursuant to the Advisory Agreement, a monthly management fee equal to 0.125% (1.5% on an annual basis) of the Company's share of the account managed by DME is paid to DME. Included in the net investment income for the three months ended September 30, 2008 are management fees of $2.6 million (2007: $2.4 million). Included in net investment income for the nine months ended September 30, 2008, are management fees of $7.7 million (2007: $5.3 million). The management fees were fully paid as of September 30, 2008, and December 31, 2007.

Service Agreement

In February 2007, the Company entered into a service agreement with DME, pursuant to which DME will provide investor relations services to the Company for compensation of $5,000 per month (plus expenses). The agreement had an initial term of one year and continues for sequential one year periods until terminated by the Company or DME. Either party may terminate the agreement for any reason with 30 days prior written notice to the other party.

7. COMMITMENTS AND CONTINGENCIES

Letters of Credit

At September 30, 2008, the Company had one letter of credit agreement for a total facility of $400 million of which the Company had issued $104.9 million letters of credit (December 31, 2007: $76.5 million). In addition, a $25.0 million letter of credit agreement with another bank was terminated on June 6, 2008; although, letters of credit of $23.9 million issued under the agreement prior to June 6, 2008, remain outstanding until their respective expiration dates. At September 30, 2008, total investments and cash equivalents with a fair market value of $248.2 million (December 31, 2007: $148.9 million) have been pledged as security against the letters of credit issued. Each of the credit facilities requires that the Company comply with covenants, including restrictions on the Company's ability to place a lien or charge on the pledged assets, and restricts issuance of any debt without the consent of the letter of credit provider. The Company was in compliance with all the covenants of each of its letter of credit facilities as of September 30, 2008.

Operating Leases

Effective September 1, 2005, the Company entered into a five-year non-cancelable lease agreement to rent office space. The total rent expense charged for the three months ended September 30, 2008 was $23,683 (2007: $22,555). The total rent expense charged for the nine months ended September 30, 2008, was $70,271 (2007: $66,925).

On July 9, 2008, the Company entered into an additional lease agreement for new office space in the Cayman Islands. Under the terms of the lease agreement, the Company is committed to annual rent payments ranging from $253,539 to $311,821 starting from the earlier of December 1, 2008 or when the premises are occupied, and ending on June 30, 2018. The Company also has the option to renew the lease for a further five year term. Included in the schedule below are the minimum lease payment obligations relating to these leases.

Specialist Service Agreement

Effective September 1, 2007, the Company entered into a service agreement with a specialist whereby the specialist service provider provides administration and support in developing and maintaining relationships, reviewing and recommending programs and managing risks on certain specialty lines of business. The service provider does not have any authority to bind the Company to any reinsurance contracts. Under the terms of the agreement, the Company has committed to quarterly payments to the service provider. If the agreement is terminated after two years, the Company is obligated to make minimum payments for another two years, as presented in the schedule below, to ensure any

bound contracts are adequately run-off by the service provider.

Private Equity

The Company periodically makes investments in private equity vehicles. As part of the Company's participation in such private equity securities, the Company may make funding commitments. As of September 30, 2008, the Company had commitments to invest an additional $20.9 million in private equity securities.

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Schedule of Commitments and Contingencies

As of September 30, 2008, the following is a schedule of future minimum payments required under the above commitments:

	2008	2009	2010	2011	2012	Thereafter	Total
				($ in thousands)			
Operating leases obligations	$ 93	$ 376	$ 345	$ 276	$ 276	$ 1,519	$ 2,885
Specialist service agreement	180	610	400	150	—	—	1,340
Private equity and limited partnerships(1)	20,868	—	—	—	—	—	20,868
	$ 21,141	$ 986	$ 745	$ 426	$ 276	$ 1,519	$ 25,093

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

Litigation

In the normal course of business, the Company may become involved in various claims, litigation and legal proceedings. As of September 30, 2008, the Company was not a party to any litigation or arbitration proceedings.

8. SEGMENT REPORTING

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

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

Gross Premiums Written by Line of Business

	Three Months Ended September 30, 2008		Three Months Ended September 30, 2007		Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007	
				($ in millions)				
Property								
Commercial lines	$ 7.5	19.9%	$ 7.5	37.9%	$ 13.6	10.2%	$ 17.6	14.3%
Personal lines	0.4	1.1	8.7	43.9	(3.7)	(2.8)	39.5	32.0
Casualty								
General liability	2.2	5.8	3.0	15.2	12.5	9.3	20.0	16.2
Motor liability	15.5	41.1	0.4	2.0	52.4	39.2	0.3	0.3
Professional liability	—	—	—	—	2.1	1.6	27.3	22.1
Specialty								
Health	7.6	20.2	0.2	1.0	35.9	26.8	15.0	12.2
Medical malpractice	1.3	3.4	—	—	8.4	6.3	3.6	2.9
Workers' compensation	3.2	8.5	—	—	12.6	9.4	—	—
	$ 37.7	100.0%	$ 19.8	100.0%	$ 133.8	100.0%	$ 123.3	100.0%

Gross Premiums Written by Geographic Area of Risks Insured

	Three Months Ended September 30, 2008		Three Months Ended September 30, 2007		Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007	
				($ in millions)				
USA	$ 27.8	73.7%	$ 9.2	46.7%	$ 114.1	85.3%	$ 75.8	61.5%
Worldwide(1)	9.9	26.3	10.6	53.3	18.9	14.1	44.7	36.3
Europe	—	—	—	—	—	—	2.2	1.7
Caribbean	—	—	—	—	0.8	0.6	0.6	0.5
	$ 37.7	100.0%	$ 19.8	100.0%	$ 133.8	100.0%	$ 123.3	100.0%

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

9. SUBSEQUENT EVENT

For the month ended October 31, 2008, the Company's investment portfolio generated an investment loss of 12.7%, or approximately $78.9 million, net of all fees and expenses.

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

References to "we," "us," "our," "our company," "Greenlight Re," or "the Company" refer to Greenlight Capital Re, Ltd. an wholly-owned subsidiary, Greenlight Reinsurance, Ltd., unless the context dictates otherwise. References to our "Ordinary Shares" refers collectively to our Class A Ordinary Shares and Class B Ordinary Shares.

The following is a discussion and analysis of our results of operations for the three and nine months ended September 30, 2008 and 2007 and financial condition as of September 30, 2008 and December 31, 2007. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes thereto contained in our annual report on Form 10-K for the fiscal year ended December 31, 2007.

Special Note About Forward-Looking Statements

Certain statements in Management's Discussion and Analysis ("MD&A"), 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. 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 c result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" (refer to Part I, Item 1A) contained in our annual report on Form 10-K for the fiscal year ended December 31, 2007. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned not to place undue reliance on the forward looking statements which speak only to the dates on which they were made.

We intend to communicate certain events that we believe may have a material adverse impact on the Company's operations or financial position, including property and casualty catastrophic events and material losses in our investment portfolio, in a timely manner through a public announcement. Other than as required by the Securities Exchange Act of 1934, as amended, we do not intend to make public announcements regarding reinsurance or investment events that we do not believe, based on management's estimates and current information, will have a material adverse impact to the Company's operations or financial position.

General

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

In September 2008, the Cayman Islands Monetary Authority granted approval for the Company's request to amend its business plan enabling us to engage in long term business (e.g., life insurance, long term disability, long term care, etc) in addition to general business (e.g., property and casualty reinsurance) which we currently write. As of the date of this filing, we had not written any long term business. However, as part of our opportunistic strategy, we now have the ability to selectively evaluate opportunities relating to long-term business.

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

Because we have a limited operating history, and 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. In addition, due to the nature of our reinsurance and investment strategies, our operating results will likely fluctuate from period to period.

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Segments

We manage our business on the basis of one operating segment, property and casualty reinsurance, in accordance with the qualitative and quantitative criteria established by SFAS 131, "Disclosure about Segments of an Enterprise and Related Information." Within the property and casualty reinsurance segment, we analyze our underwriting operations using two categories:

- frequency business; and
- severity business.

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

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

Outlook and Trends

Due to our increasing market recognition, we expect to see an increase in frequency business written in 2008 compared to 2007, and continued diversification of business by client, line of business, broker and geography. In the second quarter of 2008, we believed there was an excess of capacity in the property and casualty reinsurance business, primarily due to two consecutive years of below-average natural catastrophe losses. During the third quarter of 2008, there were two hurricanes (Gustav and Ike) that made landfall in the United States; preliminary estimates indicate total industry-wide insured losses range from $15 to $25 billion, but we do not expect to experience any losses from these hurricanes. In addition, there are a number of insurers and reinsurers that have had significant investment-related issues that have created uncertainty in their businesses. Finally, we believe that the financial and credit crisis currently underway in the U.S. and the rest of the world has the potential to cause significant losses in certain lines of business. While it is too early to tell, we believe that these potential dislocations will create opportunities for us in the near term. We intend to maintain our underwriting discipline in the face of such potential market conditions.

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

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

Our investment strategy has been affected by the difficulties faced by the overall financial markets. It is our belief that over the past few months, the marketplace has increased the risk premium on many asset classes as a result of headline news events including corporate failures, recent government interventions, current economic slowdown and the ever-widening credit crisis. We believe that when the macro economic and political uncertainties are eventually reduced, idiosyncratic risk will again have a greater impact on asset values than market risk. This is a basic premise of our value oriented investment strategy. While this has created disappointing recent results for our strategy, we believe that this also creates long-term opportunities for us due to higher risk premium throughout the asset markets. We envision no changes to our overall investment strategy.

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

Critical Accounting Policies

Our condensed consolidated financials statements are prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect reported and disclosed amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. We believe that the critical accounting policies set forth in our annual report on Form 10-K for the fiscal year ended December 31, 2007, continue to describe the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. These accounting policies pertain to revenue recognition, loss and loss adjustment expense reserves and investment valuation. Effective January 1, 2008, as a result of adopting SFAS No. 157 and SFAS No. 159, we record unrealized gains and losses, if any, on private investments in net investment income in the condensed consolidated statements of income. There was no material impact to our results of operations or financial condition as a result of this change. We did not make any material changes to our valuation techniques or models during the period.

If actual events differ significantly from the underlying judgments or estimates used by management in the application of these accounting policies, there could be a material effect on our results of operations and financial condition.

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Results of Operations

For the Three and Nine Months Ended September 30, 2008 and 2007

For the three months ended September 30, 2008, our net loss widened by $116.3 million as compared to the same period in 2007 mainly due to a net investment loss of $117.8 million, a loss of 15.9%, for the third quarter of 2008 as compared to a net investment loss of $4.8 million, a loss of 0.8%, for the third quarter of 2007. The higher investment loss reported in 2008 is primarily due to a volatile investing environment during the month of September which was amplified by restrictions placed on short selling on U.S. and foreign exchanges. Additionally, underwriting income decreased to $1.6 million for the three months ended September 30, 2008, from $5.9 million for the three months ended September 30, 2007. The decrease in underwriting income for the three months ended September 30, 2008, was primarily due to an increase in loss and loss adjustment expenses, net of loss recoveries.

For the nine months ended September 30, 2008, we incurred a net loss of $89.6 million as compared to a net income of $6.1 during the same period in 2007. Our net loss is mainly attributable to a net investment loss of $92.5 million for the nine months ended September 30, 2008 compared to a net investment income of $0.7 million during the same period in 2007. Additionally, our underwriting income decreased by $1.3 million to $13.2 million, and our general and administrative expenses increased by $2.0 million to $11.1 million for the nine months ended September 30, 2008.

One of our primary financial goals is to increase the long-term value in fully diluted book value per share. For the three months ended September 30, 2008, fully diluted book value decreased by $3.07 per share, or 17.8%, to $14.22 from $17.29 at June 30, 2008. For the nine months ended September 30, 2008, fully diluted book value decreased by $2.35 per share, or 14.2%, to $14.22 from $16.57 at December 31, 2007.

Premiums Written

Details of gross premiums written are provided below:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
	($ in thousands)							
Frequency	$ 27,787	73.7%	$ 9,228	46.7%	$ 105,432	78.8%	$ 73,029	59.2%
Severity	9,897	26.3	10,538	53.3	28,378	21.2	50,246	40.8
Total	$ 37,684	100.0%	$ 19,766	100.0%	$ 133,810	100.0%	$ 123,275	100.0%

We expect quarterly reporting of premiums written to be volatile as our underwriting portfolio continues to develop and due to our strategy to insure a concentrated portfolio of significant risks. Additionally, the composition of premiums written between frequency and severity business will vary from quarter to quarter depending on the specific market opportunities that we pursue. The volatility in premiums is reflected in the premiums written for both frequency and severity business when comparing the three and nine month periods ended September 30, 2008 to the same periods in 2007. For the three and nine months ended September 30, 2008, the increase in frequency premiums related to quota share contracts for motor liability, health, and workers' compensation lines of business. These increases were partially offset by a decrease in written premiums for personal property and general liability lines when compared to the same periods in 2007. A more detailed analysis of gross premiums written by line of business can be found in Note 8 to the condensed consolidated financial statements.

For the three months ended September 30, 2008, severity premiums decreased by $0.6 million when compared to the same period in 2007. The decrease in written premiums is the net result of timing of certain contract renewals.

Specifically, a severity contract written during September 2007 was not renewed as of September 2008, and another severity contract written in June 2007 was renewed in July 2008. In addition, reinstatement premiums relating to a severity contract were recorded during the three months ended September 30, 2008. For the nine months ended September 30, 2008, the severity premiums written decreased $21.9 million when compared to the same period in 2007. The main contributing factor for the lower severity premium written for the nine month period ended September 30, 2008 is a multi-year professional liability severity contract written in the second quarter of 2007 which was recognized as written at inception in accordance with our accounting policy for premium recognition.

We ceded premiums of negative $1.2 million for the three months ended September 30, 2008 compared to ceded premiums of $0.2 million for the same period in 2007. The negative premiums ceded are attributed to periodic adjustments to premium estimates on a number of retroceded frequency contracts.

For the nine months ended September 30, 2008, our premiums ceded decreased by $14.8 million, or 51.8%, mainly due to frequency contracts restructured on renewal which resulted in lower subject premiums and where we retained certain additional risks which were previously ceded. To a lesser extent, the adjustments to premium estimates on some frequency contracts also contributed to the decrease in ceded premiums for the nine months ended September 30, 2008.

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Details of net premiums written are provided below:

	Three Months Ended September 30,				Nine Months Ended September, 30			
	2008		2007		2008		2007	
	($ in thousands)							
Frequency	$ 28,956	74.5%	$ 9,019	46.1%	$ 91,714	76.4%	$ 44,543	47.0%
Severity	9,897	25.5	10,538	53.9	28,378	23.6	50,246	53.0
Total	$ 38,853	100.0%	$ 19,557	100.0%	$ 120,092	100.0%	$ 94,789	100.0%

Our severity business includes contracts that contain or may contain natural peril loss exposure. As of November 1, 2008, our maximum aggregate loss exposure to any series of natural peril events was $69.5 million. For purposes of the preceding sentence, aggregate loss exposure is equal to the difference between the aggregate limits available in the contracts that contain natural peril exposure and reinstatement premiums for the same contracts. We categorize peak zones as: United States, Europe, Japan and the rest of the world. The following table provides single event loss exposure and aggregate loss exposure information for the peak zones of our natural peril coverage as of the date of this filing:

Zone	Single Event Loss	Aggregate Loss
	($ in thousands)	
USA(1)	$ 51,750	$ 69,500
Europe	43,750	51,500
Japan	43,750	51,500
Rest of the world	23,750	31,500
Maximum Aggregate	51,750	69,500

(1) Includes the Caribbean

Net Premiums Earned

Net premiums earned reflect the pro rata inclusion into income of net premiums written over the life of the reinsurance contracts. Details of net premiums earned are provided below:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
	($ in thousands)							
Frequency	$ 21,042	73.6%	$ 22,390	72.9%	$ 54,338	67.3%	$ 58,807	76.8%
Severity	7,555	26.4	8,322	27.1	26,433	32.7	17,798	23.2
Total	$ 28,597	100.0%	$ 30,712	100.0%	$ 80,771	100.0%	$ 76,605	100.0%

For the three months ended September 30, 2008, the earned premiums on the frequency business decreased $1.3 million or 6.0% compared to the same period in 2007. Similarly for the nine months ended September 30, 2008, the earned premiums on the frequency business decreased by $4.5 million or 7.6%. Premiums relating to quota share contracts are earned over the contract period in proportion to the period of protection. For the nine months ended September 30, 2008, several quota share contracts incepted throughout the nine month period, whereas for the same period in 2007 the majority of earned premiums related to one large frequency contract that was in effect for the entire nine month period. Therefore the decreases in frequency premiums earned, when considered in conjunction with the increases in net frequency premiums written, indicate that a significant portion of the written premiums are to be

earned over the remaining period of the contracts.

For the three months ended September 30, 2008, the earned premiums on the severity business decreased $0.8 million or 9.2% compared to the same period in 2007. This decrease is mainly a result of fewer active severity contracts during the three months ended September 30, 2008 when compared to the same period in 2007. For the nine months ended September 30, 2008, earned premiums on the severity business increased by $8.6 million or 48.5% compared to the nine months ended September 30, 2007. The increase is largely due to the fact that earned premiums for the nine months ended September 30, 2008 include premiums earned for the entire nine month period on a multi-year excess of loss contract written towards the end of the second quarter of 2007. In addition, reinstatement premiums written on a severity contract were earned in full for the nine months ended September 30, 2008. Also contributing to the increase were a number of annual severity contracts written during the second and third quarter of 2007 which earned substantially large portions of their premiums during the nine months ended September 30, 2008, compared to the same period in 2007.

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Losses Incurred

Losses incurred include losses paid and changes in loss reserves, including reserves for losses incurred but not reported, or IBNR, net of actual and estimated loss recoverables. Details of losses incurred are provided below:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
	($ in thousands)							
Frequency	$ 5,142	34.8%	$ 9,689	85.4%	$ 19,240	53.1%	$ 28,855	91.7%
Severity	9,635	65.2	1,650	14.6	16,998	46.9	2,610	8.3
Total	$ 14,777	100.0%	$ 11,339	100.0%	$ 36,238	100.0%	$ 31,465	100.0%

The loss ratios for our frequency business were 35.4% and 49.1% for the nine months ended September 30, 2008 and 2007 respectively. The lower loss ratio for frequency business for 2008 primarily reflects favorable loss development compared to the corresponding 2007 period.

We expect losses incurred on our severity business to be volatile from period to period. The loss ratios for our severity business were 64.3% and 14.7% for the nine months ended September 30, 2008 and 2007 respectively. The increase in the loss ratio for severity business during the nine months ended September 30, 2008 is due to the different composition of the severity underwriting portfolio and due to losses developing on non natural peril severity contracts. During the nine months ended September 30, 2007, a majority of the severity underwriting portfolio related to natural peril and professional liability risks, while for the current nine months ended September 30, 2008, the severity contracts are diversified between medical malpractice and professional and general liability as well as natural peril risks.

During the nine months ended September 30, 2008, the frequency business reported favorable loss development of prior period incurred losses of $9.6 million. For the nine months ended September 30, 2008, unfavorable loss development on severity business resulted in additional prior period incurred losses of $4.3 million.

Losses incurred in the three and nine month periods ended September 30, 2008 and 2007 were comprised of losses paid and changes in loss reserves as follows:

	Three Months Ended September 30, 2008			Three Months Ended September 30, 2007		
	Gross	Ceded	Net	Gross	Ceded	Net
	($ in thousands)					
Losses paid (recovered)	$ 7,469	$ (2,042)	$ 5,427	$ 4,372	$ (1,587)	$ 2,785
Increase (decrease) in reserves	11,150	(1,800)	9,350	10,747	(2,193)	8,554
Total	$ 18,619	$ (3,842				