GREENLIGHT CAPITAL RE, LTD.
Form 10-Q
May 02, 2016

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

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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

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

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

CAYMAN ISLANDS	N/A
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
65 MARKET STREET SUITE 1207, CAMANA BAY P.O. BOX 31110 GRAND CAYMAN CAYMAN ISLANDS	KY1-1205
(Address of principal executive offices)	(Zip code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No ¨

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

Class A Ordinary Shares, $0.10 par value	30,977,642
Class B Ordinary Shares, $0.10 par value	6,254,895
(Class)	Outstanding as of April 29, 2016

GREENLIGHT CAPITAL RE, LTD.

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

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

	March 31, 2016 (unaudited)	December 31, 2015 (audited)
Assets		
Investments		
Debt instruments, trading, at fair value	$73,879	$ 39,087
Equity securities, trading, at fair value	934,232	905,994
Other investments, at fair value	190,516	119,083
Total investments	1,198,627	1,064,164
Cash and cash equivalents	196,134	112,162
Restricted cash and cash equivalents	1,157,656	1,236,589
Financial contracts receivable, at fair value	13,286	13,215
Reinsurance balances receivable	246,862	187,940
Loss and loss adjustment expenses recoverable	3,548	3,368
Deferred acquisition costs, net	68,184	59,823
Unearned premiums ceded	2,805	3,251
Notes receivable	35,537	25,146
Other assets	7,189	6,864
Total assets	$2,929,828	$ 2,712,522
Liabilities and equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$876,248	$ 882,906
Financial contracts payable, at fair value	9,106	28,245
Due to prime brokers	544,481	396,453
Loss and loss adjustment expense reserves	341,132	305,997
Unearned premium reserves	237,919	211,954
Reinsurance balances payable	19,704	18,326
Funds withheld	7,036	7,143
Other liabilities	12,146	12,725
Performance compensation payable to related party	3,081	—
Total liabilities	2,050,853	1,863,749
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, 30,977,642 (2015: 30,772,572): Class B: par value $0.10; authorized, 25,000,000; issued and outstanding, 6,254,895 (2015: 6,254,895))	3,723	3,703
Additional paid-in capital	497,141	496,401
Retained earnings	353,956	325,287
Shareholders' equity attributable to shareholders	854,820	825,391
Non-controlling interest in joint venture	24,155	23,382
Total equity	878,975	848,773

Total liabilities and equity	$2,929,828	$ 2,712,522

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 months ended March 31, 2016 and 2015
(expressed in thousands of U.S. dollars, except per share and share amounts)

	Three months ended March 31	
	2016	2015
Revenues		
Gross premiums written	$166,792	$129,682
Gross premiums ceded	(2,107)	(1,626)
Net premiums written	164,685	128,056
Change in net unearned premium reserves	(26,573)	(33,263)
Net premiums earned	138,112	94,793
Net investment income (loss)	28,435	(24,829)
Other income (expense), net	(271)	1,588
Total revenues	166,276	71,552
Expenses		
Loss and loss adjustment expenses incurred, net	90,668	63,207
Acquisition costs, net	38,963	26,841
General and administrative expenses	6,999	6,160
Total expenses	136,630	96,208
Income (loss) before income tax	29,646	(24,656)
Income tax (expense) benefit	(204)	215
Net income (loss) including non-controlling interest	29,442	(24,441)
Loss (income) attributable to non-controlling interest in joint venture	(773)	394
Net income (loss)	$28,669	$(24,047)
Earnings (loss) per share		
Basic	$0.77	$(0.65)
Diluted	$0.77	$(0.65)
Weighted average number of ordinary shares used in the determination of earnings and loss per share		
Basic	37,107,039	37,173,008
Diluted	37,422,921	37,173,008

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 three months ended March 31, 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	$ 28,890	$ 1,194,041
Issue of Class A ordinary shares, net of forfeitures	14	—	—	14	—	14
Share-based compensation expense, net of forfeitures	—	1,034	—	1,034	—	1,034
Income (loss) attributable to non-controlling interest in joint venture	—	—	—	—	(394)	(394)
Net income (loss)	—	—	(24,047)	(24,047)	—	(24,047)
Balance at March 31, 2015	$ 3,752	$ 501,587	$ 636,813	$ 1,142,152	$ 28,496	$ 1,170,648
Balance at December 31, 2015	$ 3,703	$ 496,401	$ 325,287	$ 825,391	$ 23,382	$ 848,773
Issue of Class A ordinary shares, net of forfeitures	20	—	—	20	—	20
Share-based compensation expense, net of forfeitures	—	740	—	740	—	740
Income (loss) attributable to non-controlling interest in joint venture	—	—	—	—	773	773
Net income (loss)	—	—	28,669	28,669	—	28,669
Balance at March 31, 2016	$ 3,723	$ 497,141	$ 353,956	$ 854,820	$ 24,155	$ 878,975

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 three months ended March 31, 2016 and 2015
(expressed in thousands of U.S. dollars)

	Three months ended March 31	
	2016	2015
Cash provided by (used in) operating activities		
Net income (loss)	$28,669	$(24,047)
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	(78,700)	29,850
Net realized gains (losses) on investments and financial contracts	38,611	(25,010)
Foreign exchange (gains) losses on investments	4,112	7,973
Income (loss) attributable to non-controlling interest in joint venture	773	(394)
Share-based compensation expense, net of forfeitures	760	1,048
Depreciation expense	102	101
Net change in		
Reinsurance balances receivable	(58,922)	(32,770)
Loss and loss adjustment expenses recoverable	(180)	(203)
Deferred acquisition costs, net	(8,361)	(8,134)
Unearned premiums ceded	446	357
Other assets	(427)	(651)
Loss and loss adjustment expense reserves	35,135	(3,933)
Unearned premium reserves	25,965	32,245
Reinsurance balances payable	1,378	1,138
Funds withheld	(107)	212
Other liabilities	(579)	4,053
Performance compensation payable to related party	3,081	—
Net cash provided by (used in) operating activities	(8,244)	(18,165)
Investing activities		
Purchases of investments, trading	(423,065)	(251,068)
Sales of investments, trading	308,059	252,857
Payments for financial contracts	(29,976)	(3,999)
Proceeds from financial contracts	9,123	8,294
Securities sold, not yet purchased	290,478	391,768
Dispositions of securities sold, not yet purchased	(276,369)	(182,793)
Change in due to prime brokers	148,028	44,590
Change in restricted cash and cash equivalents, net	76,329	(239,358)
Change in notes receivable, net	(10,391)	(2,690)
Net cash provided by (used in) investing activities	92,216	17,601
Net increase (decrease) in cash and cash equivalents	83,972	(564)
Cash and cash equivalents at beginning of the period	112,162	12,030
Cash and cash equivalents at end of the period	$196,134	$11,466
Supplementary information		
Interest paid in cash	$2,576	$3,741

Income tax paid in cash	—	—
Non-cash transfer to notes receivable	—	25,859

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)

March 31, 2016

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 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, 2015. In the opinion of management, these unaudited condensed consolidated financial statements reflect all of the normal recurring adjustments considered necessary for a fair presentation of the Company’s financial position and results of operations as of the dates and for the periods presented.

The results for the three months ended March 31, 2016 are not necessarily indicative of the results expected for the full calendar year.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Restricted Cash and Cash Equivalents

The Company is required to maintain certain cash in segregated accounts with prime brokers and derivative counterparties. The amount of restricted cash held by prime brokers is primarily used to support the liability created from securities sold, not yet purchased and 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 8). 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.

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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 March 31, 2016 and December 31, 2015, 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 March 31, 2016, $12.0 million (December 31, 2015: $12.2 million) of profit commission reserves were included in reinsurance balances payable on the condensed consolidated balance sheets. For the three months ended March 31, 2016, $1.1 million (2015: $0.5 million) of net profit commission expense was included in acquisition costs on the condensed consolidated statements of income.

Loss and Loss Adjustment Expense Reserves and Recoverable

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

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

Notes Receivable

Notes receivable include promissory notes receivable from third party entities. These notes are recorded at cost along with accrued interest, if any, which approximates the fair value. Interest income and realized gains or losses on sale of notes receivable are included under net investment income (loss) in the condensed 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 March 31, 2016, $22.0 million of notes receivable (net of any valuation allowance) were on non-accrual status (December 31, 2015: $23.0 million) and any payments received were applied to reduce the recorded value of the notes.

At March 31, 2016 and December 31, 2015, there was no accrued interest included in the notes receivable balance. Based on management's assessment, the recorded values of the notes receivable, net of valuation allowance, at March 31, 2016 and December 31, 2015, were expected to be fully collectible.

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Deposit Assets and Liabilities

In accordance with U.S. GAAP, deposit accounting is used in the event that a reinsurance contract does not transfer sufficient insurance risk, or a contract provides retroactive reinsurance. Any losses on such contracts are charged to earnings immediately. Any gains relating to such contracts are deferred and amortized over the estimated remaining settlement period. All such deferred gains are included in reinsurance balances payable in the condensed consolidated balance sheets. Amortized gains are recorded in the condensed consolidated statements of income as other income. At March 31, 2016 and December 31, 2015, there were no material deposit assets or deposit liabilities and no material gains or losses on deposit accounted contracts.

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 condensed consolidated statements of income.

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

Derivative Financial Instruments

U.S. GAAP requires that an entity recognize all derivatives in the balance sheet at fair value. It also requires that unrealized gains and losses resulting from changes in fair value be included in income or comprehensive income, depending on whether the instrument qualifies as a hedge transaction, and if so, the type of hedge transaction. The

Company’s derivative financial instrument assets are included in financial contracts receivable. Derivative financial instrument liabilities are generally included in financial contracts payable. The Company's derivatives do not qualify as hedges for financial reporting purposes and are recorded in the condensed consolidated balance sheets on a gross basis and not offset against any collateral pledged or received. Pursuant to the International Swaps and Derivatives Association ("ISDA") master agreements, securities lending agreements and other 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 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

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

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

The Company 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).

Comprehensive Income (Loss)

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

Earnings (Loss) Per Share

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

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	Three months ended March 31	
	2016	2015
Weighted average shares outstanding - basic	37,107,039	37,173,008
Effect of dilutive employee and director share-based awards	315,882	—
Weighted average shares outstanding - diluted	37,422,921	37,173,008
Anti-dilutive stock options outstanding	485,991	71,821
Participating securities excluded from calculation of loss per share	—	322,971

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 rate of 35%.

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

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

Recent Accounting Pronouncements

In May 2015, the FASB issued Accounting Standards Update 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share or Its Equivalent" ("ASU 2015-07"). The amendments apply to reporting entities that elect to measure the fair value of an investment using the net asset value ("NAV") per share (or its equivalent) as a practical expedient. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share as a practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share as a practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendments in ASU 2015-07 are effective for reporting periods beginning after December 15, 2015, with early adoption permitted. Entities are required to apply the amendments in this update retrospectively to all periods presented. The Company adopted ASU 2015-07 during the first quarter of 2016. As the Company measures certain investments in private equity funds using the NAV as a practicable expedient, upon adoption of ASU 2015-07, the fair value of these investments was removed from the fair value hierarchy for all periods presented in the Company’s condensed consolidated financial statements. The Company will continue to disclose information on those investments for which fair value is measured at NAV as a practical expedient.

In May 2015, the FASB issued ASU 2015-09, "Financial Services - Insurance (Topic 944): Disclosures about Short-Duration Contracts" ("ASU 2015-09"). ASU 2015-09 requires additional disclosures for short-duration contracts including incurred and paid claims development information, claims duration information, quantitative claims frequency information (unless impracticable), and an explanation of significant changes in methodologies and assumptions used to calculate the loss and loss adjustment expense reserves. ASU 2015-09 is effective for public entities for annual reporting periods beginning after December 15, 2015, and interim reporting periods within annual reporting periods beginning after December 15, 2016 with early adoption permitted. The Company is evaluating the impact of the disclosure requirements of ASU 2015-09 and is preparing to disclose the additional information in its consolidated financial statements for the fiscal year ending December 31, 2016 and interim and annual periods thereafter.

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In January 2016, the FASB has 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 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 is in the process of evaluating the impact of adopting ASU 2016-02 on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 is intended to improve the accounting for employee share-based payments and affects all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any organization in any interim or annual period. The Company is in the process of evaluating the impact of the requirements of ASU 2016-09 on the Company's disclosures.

3. FINANCIAL INSTRUMENTS

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

Fair Value Hierarchy

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

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

Description	Fair value measurements as of March 31, 2016 Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:	($ in thousands)			
Debt instruments	$—	$73,383	$ 496	$73,879
Listed equity securities	928,903	5,329	—	934,232
Commodities	172,661	—	—	172,661
Private and unlisted equity securities	—	—	5,931	5,931
Private equity funds measured at net asset value (1)	—	—	—	11,924
Total investments	$1,101,564	$78,712	$ 6,427	$1,198,627
Financial contracts receivable	$15	$13,271	$ —	$13,286
Liabilities:				
Listed equity securities, sold not yet purchased	$(829,394)	$—	$ —	$(829,394)
Debt instruments, sold not yet purchased	—	(46,854)	—	(46,854)
Securities sold, not yet purchased, at fair value	$(829,394)	$(46,854)	$ —	$(876,248)
Financial contracts payable	$(206)	$(8,900)	$ —	$(9,106)

(1) 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 amounts presented in the condensed consolidated balance sheets.

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

Description	Fair value measurements as of December 31, 2015 Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:	($ in thousands)			
Debt instruments	$—	$38,582	$ 505	$39,087
Listed equity securities	900,369	5,625	—	905,994
Commodities	98,046	—	—	98,046
Private and unlisted equity securities	—	—	8,452	8,452
Private equity funds measured at net asset value (1)	—	—	—	12,585
	$998,415	$44,207	$ 8,957	$1,064,164
Financial contracts receivable	$20	$13,195	$ —	$13,215
Liabilities:				
Listed equity securities, sold not yet purchased	$(808,481)	$—	$ —	$(808,481)
Debt instruments, sold not yet purchased	—	(74,425)	—	(74,425)
Securities sold, not yet purchased, at fair value	$(808,481)	$(74,425)	$ —	$(882,906)
Financial contracts payable	$(488)	$(27,757)	$ —	$(28,245)

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(1) 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 amounts presented in the condensed 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 three months ended March 31, 2016:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three months ended March 31, 2016 Assets		
	Debt instruments	Private and unlisted equity securities	Total
	($ in thousands)		
Beginning balance	$505	$ 8,452	$8,957
Purchases	—	—	—
Sales	—	(2,539)	(2,539)
Issuances	—	—	—
Settlements	—	—	—
Total realized and unrealized gains (losses) and amortization included in earnings, net	(9)	18	9
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Ending balance	$496	$ 5,931	$6,427

There were no transfers between Level 1, Level 2 or Level 3 during the three months ended March 31, 2016.

The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) for the three months ended March 31, 2015:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three months ended March 31, 2015 Assets			
	Debt instruments	Private and unlisted equity securities	Financial contracts receivable	Total
	($ in thousands)			
Beginning balance	$22,259	$ 6,449	$ —	$28,708
Purchases	—	—	2,340	2,340
Sales	—	—	—	—

Issuances	—	—	—	—
Settlements	—	—	—	—
Total realized and unrealized gains (losses) and amortization included in earnings, net	1	—	(577)	(576)
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Ending balance	$22,260	$ 6,449	$ 1,763	$30,472

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There were no transfers between Level 1, Level 2 or Level 3 during the three months ended March 31, 2015.

As of March 31, 2016, the Company held investments in private equity funds of $11.9 million (December 31, 2015: $12.6 million) with fair values measured using the unadjusted net asset values as reported by the managers of these funds as a practical expedient. Some of these net asset values were reported from periods prior to March 31, 2016. The private equity funds have varying lock-up periods and, as of March 31, 2016, all of the funds had redemption restrictions. The redemption restrictions have been in place since inception of the investments and are not expected to lapse in the near future. As of March 31, 2016, the Company had $5.3 million (December 31, 2015: $6.1 million) of unfunded commitments relating to private equity funds whose fair values are determined based on unadjusted net asset values reported by the managers of these funds. These commitments are included in the amounts presented in the schedule of commitments and contingencies in Note 8 of these condensed consolidated financial statements.

For the three months ended March 31, 2016, included in net investment loss in the condensed consolidated statements of income were net realized losses relating to Level 3 securities of $1.4 million (three months ended March 31, 2015: nil). In addition, for the three months ended March 31, 2016, amortization of $0.0 million (2015: $0.6 million) relating to financial contracts receivable, valued using unobservable inputs, was included in the condensed consolidated statements of income as other income (expense), net.

For Level 3 securities still held as of the reporting date, the change in net unrealized gain for the three months ended March 31, 2016 of $1.4 million (three months ended March 31, 2015: net unrealized gains of $0.0 million), were included in net investment income (loss) in the condensed consolidated statements of income.

Investments

Debt instruments, trading

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

	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Corporate debt – U.S.	$35,468	$ 3,035	$ (5,430)	$33,073
Corporate debt – Non U.S.	2,109	—	(2,047)	62
Sovereign debt – U.S.	20,534	354	—	20,888
Sovereign debt – Non U.S.	17,688	2,168	—	19,856
Total debt instruments	$75,799	$ 5,557	$ (7,477)	$73,879

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

	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Corporate debt – U.S.	$25,674	$ 155	$ (5,519)	$20,310
Corporate debt – Non U.S.	2,109	—	(1,795)	314
Sovereign debt – Non U.S.	17,688	1,225	(450)	18,463
Total debt instruments	$45,471	$ 1,380	$ (7,764)	$39,087

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The maturity distribution for debt instruments held at March 31, 2016 and December 31, 2015 was as follows:

	March 31, 2016		December 31, 2015	
	Cost/ amortized cost	Fair value	Cost/ amortized cost	Fair value
	($ in thousands)			
Within one year	$—	$—	$—	$—
From one to five years	15,198	11,127	4,202	4,129
From five to ten years	21,428	21,512	18,840	14,780
More than ten years	39,173	41,240	22,429	20,178
	$75,799	$73,879	$45,471	$39,087

Equity securities, trading

At March 31, 2016, the following long positions were included in equity securities, trading:

	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Equities – listed	$996,856	$ 87,631	$(167,049)	$917,438
Exchange traded funds	17,986	—	(1,192)	16,794
Total equity securities	$1,014,842	$ 87,631	$(168,241)	$934,232

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

	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Equities – listed	$1,011,424	$ 67,114	$(187,885)	$890,653
Exchange traded funds	31,570	—	(16,229)	15,341
Total equity securities	$1,042,994	$ 67,114	$(204,114)	$905,994

Other Investments

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

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

	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Commodities	$155,693	$ 16,968	$ —	$172,661
Private and unlisted equity securities	14,034	3,821	—	17,855
	$169,727	$ 20,789	$ —	$190,516

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

	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Commodities	$102,092	$ —	$(4,046)	$98,046
Private and unlisted equity securities	18,720	3,491	(1,174)	21,037
	$120,812	$ 3,491	$(5,220)	$119,083

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 condensed 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 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 March 31, 2016, the following securities were included in investments in securities sold, not yet purchased:

	Proceeds	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Equities – listed	$(812,542)	$ 71,809	$(79,082)	$(819,815)
Exchange traded funds	(9,572)	—	(8)	(9,580)
Sovereign debt – Non U.S.	(41,185)	—	(5,668)	(46,853)
	$(863,299)	$ 71,809	$(84,758)	$(876,248)

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

	Proceeds	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Equities – listed	$(803,842)	$ 102,469	$(94,681)	$(796,054)
Exchange traded funds	(9,572)	—	(2,855)	(12,427)
Sovereign debt – Non U.S.	(77,443)	3,018	—	(74,425)
	$(890,857)	$ 105,487	$(97,536)	$(882,906)

Financial Contracts

As of March 31, 2016 and December 31, 2015, the Company had entered into total return equity swaps, interest rate swaps, commodity swaps, CDS, 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.

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At March 31, 2016, the fair values of financial contracts outstanding were as follows:

Financial Contracts	Listing currency [1]	Notional amount of underlying instruments	Fair value of net assets (obligations) on financial contracts
		($ in thousands)	
Financial contracts receivable			
Commodity Swaps	USD	59,161	$ 885
Put options [2]	USD	92,290	3,064
Total return swaps – equities	EUR/GBP/HKD/RON/USD	53,238	9,207
Warrants and rights on listed equities	EUR/USD	176	130
Total financial contracts receivable, at fair value			$ 13,286
Financial contracts payable			
Forwards	KRW	2,926	$ (160)
Futures	USD	25,766	(206)
Total return swaps – equities	EUR/GBP/MXN/USD	33,887	(8,740)
Total financial contracts payable, at fair value			$ (9,106)

(1) USD = US Dollar; EUR = Euro; GBP = British Pound; HKD = Hong Kong Dollar; KRW = Korean Won; MXN = Mexican Peso; RON = Romanian New Leu.
(2) Includes options on the Japanese Yen and the Chinese Yuan, denominated in U.S. dollars.

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

Financial Contracts	Listing currency [1]	Notional amount of underlying instruments	Fair value of net assets (obligations) on financial contracts
		($ in thousands)	
Financial contracts receivable			
Call options [2]	USD	47,259	$ 657
Put options [3]	USD	147,326	8,790
Total return swaps – equities	EUR/GBP/USD	50,205	3,748
Warrants and rights on listed equities	EUR	59	20
Total financial contracts receivable, at fair value			$ 13,215
Financial contracts payable			
Call options	USD	2,601	$ (64)
Commodity Swaps	USD	42,160	(12,784)
Forwards	KRW	2,908	(22)
Futures	USD	21,195	(488)
Total return swaps – equities	EUR/GBP/HKD/RON/MXN/USD	71,874	(14,887)
Total financial contracts payable, at fair value			$ (28,245)

(1) USD = US Dollar; EUR = Euro; GBP = British Pound; HKD = Hong Kong Dollar; KRW = Korean Won; MXN = Mexican Peso; RON = Romanian New Leu.
(2) Includes options on interest rate futures relating to U.S. dollar LIBOR interest rates.
(3) 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.

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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 March 31, 2016, the Company held $3.1 million OTC put options (long) (December 31, 2015: $8.7 million).

During the three months ended March 31, 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 Three months ended March 31	
		2016	2015
		($ in thousands)	
Credit default swaps, purchased – corporate debt	Net investment income (loss)	$—	$(55)
Credit default swaps, purchased – sovereign debt	Net investment income (loss)	—	(31)
Forwards	Net investment income (loss)	(81)	136
Futures	Net investment income (loss)	984	(2,077)
Options, warrants, and rights	Net investment income (loss)	(2,803)	(2,474)
Commodity swaps	Net investment income (loss)	(5,565)	—
Total return swaps – equities	Net investment income (loss)	6,919	4,223
Weather derivative swap	Other income (expense), net	—	(577)
Total		$(546)	$(855)

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 three months ended March 31, 2016, the Company's volume of derivative activities (based on notional amounts) was as follows:

2016	Three months ended March 31	
Derivatives not designated as hedging instruments (notional amounts)	Entered	Exited
	($ in thousands)	
Forwards	$—	$63
Futures	174,721	169,710
Options, warrants and rights [1]	133,333	175,651
Commodity swaps	75,566	54,374
Total return swaps	1,483	28,271
Total	$385,103	$428,069

[1] Exited amount excludes derivatives which expired or were exercised during the period.

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For the three months ended March 31, 2015, the Company's volume of derivative activities (based on notional amounts) was as follows:

2015	Three months ended March 31	
Derivatives not designated as hedging instruments (notional amounts)	Entered	Exited
	($ in thousands)	
Forwards	$—	$4,725
Futures	84,989	56,748
Options, warrants and rights [(1)]	—	69,777
Total return swaps	14,900	39,748
Weather derivative swap	2,340	—
Total	$102,229	$170,9