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	$170,998

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

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

As of March 31, 2016, the gross and net amounts of derivative instruments and the cash collateral applicable to derivative instruments were as follows:

March 31, 2016	(i)	(ii)	(iii) = (i) - (ii)	(iv) Gross amounts not offset in the balance sheet		(v) = (iii) + (iv)
Description	Gross amounts of recognized assets (liabilities)	Gross amounts offset in the balance sheet	Net amounts of assets (liabilities) presented in the balance sheet	Financial instruments available for offset	Cash collateral (received) pledged	Net amount of asset (liability)
	($ in thousands)					
Financial contracts receivable	$13,286	$ —	$ 13,286	$(6,239)	$ (3,748)	$ 3,299
Financial contracts payable	(9,106)	—	(9,106)	6,239	2,867	—

As of December 31, 2015, the gross and net amounts of derivative instruments and the cash collateral applicable to derivative instruments were as follows:

December 31, 2015	(i)	(ii)	(iii) = (i) - (ii)	(iv) Gross amounts not offset in the balance sheet		(v) = (iii) + (iv)
Description	Gross amounts of recognized assets (liabilities)	Gross amounts offset in the balance sheet	Net amounts of assets (liabilities) presented in the balance sheet	Financial instruments available for offset	Cash collateral (received) pledged	Net amount of asset (liability)

	($ in thousands)					
Financial contracts receivable	$13,215	$ —	$ 13,215	$ (8,937)	$ (2,036)	$ 2,242
Financial contracts payable	(28,245)	—	(28,245)	8,937	19,308	—

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4. DUE TO PRIME BROKERS

As of March 31, 2016, the amount due to prime brokers is comprised of margin-borrowing from prime brokers relating to investments purchased on margin, as well as margin-borrowing for providing collateral to support some of the Company’s outstanding letters of credit (see Note 8) and trust accounts. Under term margin agreements and certain letter of credit facility agreements, the Company pledges certain investment securities to borrow cash from the prime brokers. The borrowed cash is placed in a custodial account in the name of the Company and this custodial account provides collateral for any letters of credit issued. Since there is no legal right of offset, the Company’s liability for the cash borrowed from the prime brokers is included on the condensed consolidated balance sheets as due to prime brokers while the cash held in the custodial account is included on the condensed consolidated balance sheets as restricted cash and cash equivalents. At March 31, 2016, the amounts due to prime brokers included $259.5 million (December 31, 2015: $301.4 million) of cash borrowed under the term margin agreements to provide collateral for letters of credit and trust accounts and $285.0 million (December 31, 2015: $95.0 million) of borrowing relating to investing activities.

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

5. RETROCESSION

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

For the three months ended March 31, 2016, loss and loss adjustment expenses incurred of $90.7 million (2015: $63.2 million) reported on the condensed consolidated statements of income are net of loss and loss expenses recovered and recoverable of $0.4 million (2015: $0.2 million).

Retrocession contracts do not relieve the Company from its obligations to the insureds. Failure of retrocessionaires to honor their obligations could result in losses to the Company. At March 31, 2016, the Company had losses receivable and loss reserves recoverable of $3.0 million (December 31, 2015: $3.1 million) from unrated retrocessionaires and $0.6 million (December 31, 2015: $0.3 million) from a retrocessionaire rated A- by A.M. Best. At March 31, 2016 and December 31, 2015, $3.0 million and $3.1 million, respectively, of losses recoverable from unrated retrocessionaires were secured by cash collateral held by the Company.

The Company regularly evaluates the financial condition of its retrocessionaires to assess the ability of the retrocessionaires to honor their respective obligations. At March 31, 2016 and December 31, 2015, no provision for uncollectible losses recoverable was considered necessary.

6. SHARE-BASED COMPENSATION

The Company has a stock incentive plan for directors, employees and consultants that is administered by the Compensation Committee of the Board of Directors. The Company's shares authorized for issuance pursuant to the stock incentive plan include 3,500,000 (December 31, 2015: 3,500,000) Class A ordinary shares. As of March 31, 2016, 517,506 (December 31, 2015: 658,775) Class A ordinary shares remained available for future issuance under the Company's stock incentive plan.

Employee and Director Restricted Shares

As part of its stock incentive plan, the Company issues restricted shares for which the fair value is equal to the price of the Company’s Class A ordinary shares on the grant date. Compensation based on the grant date fair market value of the shares is expensed on a straight line basis over the applicable vesting period, net of any estimated forfeitures.
For the three months ended March 31, 2016, 149,332 (2015: 78,102) restricted Class A ordinary shares were issued to employees pursuant to the Company’s stock incentive plan. These shares contain certain restrictions relating to, among other things, vesting, forfeiture in the event of termination of employment and transferability. Each of these restricted shares cliff vest

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after three years from the date of issuance, subject to the grantee's continued service with the Company. During the vesting period, the holder of the restricted shares retains voting rights and is entitled to any dividends declared by the Company.

For the three months ended March 31, 2016, 4,177 (2015: nil) restricted shares were forfeited by employees who left the Company prior to the expiration of the applicable vesting periods. For the three months ended March 31, 2016, in accordance with U.S. GAAP, $0.05 million of stock compensation expense (2015: nil) relating to the forfeited restricted shares was reversed.

The restricted share award activity during the three months ended March 31, 2016 was as follows:

	Number of non-vested restricted shares	Weighted average grant date fair value
Balance at December 31, 2015	307,013	$ 29.74
Granted	149,332	21.56
Vested	(93,193)	24.43
Forfeited	(4,177)	32.62
Balance at March 31, 2016	358,975	$ 27.68

Employee and Director Stock Options

For the three months ended March 31, 2016, 156,000 (2015: 90,000) stock options were exercised by directors and employees resulting in 59,179 (2015: 58,982) Class A ordinary shares issued, net of shares surrendered as a result of the cashless exercise of stock options. When stock options are granted, the Company reduces the corresponding number from the shares authorized for issuance as part of the Company's stock incentive plan. The intrinsic value of options exercised during the three months ended March 31, 2016 was $1.1 million (2015: $1.9 million).

Employee and director stock option activity during the three months ended March 31, 2016 was as follows:

	Number of options	Weighted average exercise price	Weighted average grant date fair value
Balance at December 31, 2015	906,991	$ 19.78	$ 8.53
Granted	—	—	—
Exercised	(156,000)	11.65	5.86
Forfeited	—	—	—
Expired	—	—	—
Balance at March 31, 2016	750,991	$ 21.47	$ 9.09

Employee Restricted Stock Units

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

For the three months ended March 31, 2016, 7,444 (2015: 6,821) RSUs were issued to employees pursuant to the Company's stock incentive plan. These shares contain certain restrictions relating to, among other things, vesting, forfeiture in the event of termination of employment and transferability. Each of these RSUs cliff vest after three years from the date of issuance, subject to the grantee's continued service with the Company. On the vesting date, the Company converts each RSU into one Class A ordinary share and issues new Class A ordinary shares from the shares authorized for issuance as part of the Company's stock incentive plan.

For the three months ended March 31, 2016, 11,330 (2015: nil) restricted share units were forfeited by employees who left the Company prior to the expiration of the applicable vesting periods. For the three months ended March 31, 2016, in

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accordance with U.S. GAAP, $0.2 million of stock compensation expense (2015: nil) relating to the forfeited restricted share units was reversed.

Employee RSU activity during the three months ended March 31, 2016 was as follows:

	Number of non-vested RSUs	Weighted average grant date fair value
Balance at December 31, 2015	22,170	$ 30.55
Granted	7,444	21.56
Vested	(736)	24.43
Forfeited	(11,330)	29.71
Balance at March 31, 2016	17,548	$ 27.54

For the three months ended March 31, 2016 and 2015, the general and administrative expenses included stock compensation expense (net of forfeitures) of $0.8 million and $1.0 million, respectively, for the expensing of the fair value of stock options, restricted stocks and RSUs granted to employees and directors. For the three months ended March 31, 2016, the Company assumed a forfeiture rate of 6.0% (2015: 0%) for restricted shares and RSUs granted to employees during the period. The Company’s assumed forfeiture rate reduces the unamortized grant date fair value of unvested outstanding restricted shares and RSUs as well as the associated stock compensation expense. As restricted shares and RSUs are actually forfeited, the number of outstanding restricted shares and RSUs is reduced and the remaining unamortized grant date fair value is compared to assumed forfeiture levels and if deemed necessary, true-up adjustments are recorded.

7. RELATED PARTY TRANSACTIONS

Investment Advisory Agreement

Effective January 1, 2014, the Company and its reinsurance subsidiaries were party to a joint venture agreement with DME Advisors, LP ("DME Advisors") under which the Company, its reinsurance subsidiaries and DME Advisors LLC ("DME") are participants of a joint venture for the purpose of managing certain jointly held assets, as may be amended from time to time, (the "venture agreement"). In addition, the Company, its reinsurance subsidiaries and DME have entered into a separate investment advisory agreement with DME Advisors, as may be amended from time to time, (the "advisory agreement"). DME and DME Advisors are related to the Company and each is an affiliate of David Einhorn, Chairman of the Company’s Board of Directors.

Pursuant to the venture agreement, performance allocation equal to 20% of the net investment income of the Company’s share of the account managed by DME Advisors is allocated, subject to a loss carry forward provision, to DME’s account. The loss carry forward provision requires DME to earn a reduced performance allocation of 10% on net investment income in any year subsequent to the year in which the investment account incurs a loss, until all the losses are recouped and an additional amount equal to 150% of the aggregate investment loss is earned. DME is not entitled to earn a performance allocation in a year in which the investment portfolio incurs a loss. For the year ended December 31, 2015, the Company's investment portfolio managed by DME Advisors reported a net investment loss of $276.7 million (net of minority interest) and as a result no performance allocation was paid to DME Advisors in 2015. In addition, the performance allocation for fiscal year 2016 and subsequent years will be reduced to 10% of net investment income until all the investment losses have been recouped and an additional amount equal to 150% of the investment loss is earned. For the three months ended March 31, 2016, $3.1 million performance allocation (2015: nil) was accrued on the condensed consolidated balance sheet and netted against gross investment income in the condensed consolidated statements of income due to a net investment income reported for the period.

Pursuant to the advisory agreement, a monthly management fee, equal to 0.125% (1.5% on an annual basis) of the Company's investment account managed by DME Advisors, is paid to DME Advisors. Included in the net investment income (loss) for the three months ended March 31, 2016 were management fees of $4.2 million (2015: $5.2 million). The management fees have been fully paid as of March 31, 2016.

Pursuant to the venture and advisory agreements, the Company has agreed to indemnify DME and DME Advisors for any expense, loss, liability, or damage arising out of any claim asserted or threatened in connection with DME Advisors serving as the Company's investment advisor. The Company will reimburse DME and DME Advisors for reasonable costs and

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expenses of investigating and/or defending such claims, provided such claims were not caused due to gross negligence, breach of contract or misrepresentation by DME or DME Advisors. For the three months ended March 31, 2016, there were no indemnification payments payable or paid by the Company.

Green Brick Partners, Inc

David Einhorn also serves as the Chairman of the Board of Directors of Green Brick Partners, Inc ("GRBK"), a publicly traded company. As of March 31, 2016, $26.3 million (December 31, 2015: $25.0 million) of GRBK listed equities were included on the balance sheet as "equity securities, trading, at fair value". The Company along with certain affiliates of DME Advisors, collectively own 49% of the issued and outstanding common shares of GRBK. Under applicable securities laws, DME Advisors may be limited at times in its ability to trade GRBK shares on behalf of the Company.

Service Agreement

The Company has entered into a service agreement with DME Advisors, pursuant to which DME Advisors provides certain investor relations services to the Company for compensation of $5,000 per month (plus expenses). The agreement is automatically renewed annually until terminated by either the Company or DME Advisors for any reason with 30 days prior written notice to the other party.

8. COMMITMENTS AND CONTINGENCIES

Letters of Credit and Trusts

At March 31, 2016, the Company had the following letter of credit facilities, which automatically renew each year unless terminated by either party in accordance with the required notice period:

	Facility ($ in thousands)	Termination Date	Notice period required for termination
Bank of America, N.A.	$ 120,000	July 11, 2016	90 days prior to termination date
Butterfield Bank (Cayman) Limited	100,000	June 30, 2016	90 days prior to termination date
Citibank Europe plc	400,000	October 11, 2016	120 days prior to termination date
JP Morgan Chase Bank N.A.	100,000	January 27, 2017	120 days prior to termination date
	$ 720,000		

As of March 31, 2016, an aggregate amount of $222.2 million (December 31, 2015: $245.6 million) in letters of credit were issued under the above facilities. Under the facilities, the Company provides collateral that may consist of equity securities, restricted cash, and cash and cash equivalents. As of March 31, 2016, total equity securities, restricted cash, and cash and cash equivalents with a fair value in the aggregate of $277.0 million (December 31, 2015: $324.3 million) were pledged as collateral against the letters of credit issued (also see Note 4). Each of the facilities contain customary events of default and restrictive covenants, including but not limited to, limitations on liens on collateral, transactions with affiliates, mergers and sales of assets, as well as solvency and maintenance of certain minimum pledged equity requirements, and restricts issuance of any debt without the consent of the letter of credit provider. Additionally, if an event of default exists, as defined in the letter of credit facilities, Greenlight Re will be prohibited from paying dividends to its parent company. The Company was in compliance with all the covenants of each of these facilities as of March 31, 2016 and December 31, 2015.

Subsequent to March 31, 2016, on April 4, 2016, the Company provided a notice of cancellation to terminate the Bank of America, N.A. letter of credit facility.

In addition to the letters of credit, the Company has established regulatory trust arrangements for certain cedents. As of March 31, 2016, collateral of $78.6 million (December 31, 2015: $78.6 million) was provided to cedents in the form of regulatory trust accounts.

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Operating Lease Obligations

Greenlight Re has entered into lease agreements for office space in the Cayman Islands. Under the terms of the lease agreements, Greenlight Re is committed to annual rent payments ranging from $0.3 million at inception to $0.5 million at lease termination. The leases expire on June 30, 2018 and Greenlight Re has the option to renew the leases for a further five-year term. Included in the schedule below are the minimum lease payment obligations relating to these leases as of March 31, 2016.

GRIL has entered into a lease agreement for office space in Dublin, Ireland. Under the terms of this lease agreement, GRIL is committed to minimum annual rent payments denominated in Euros approximating €0.1 million until May 2021, and adjusted to the prevailing market rates for each of the two subsequent five-year terms. GRIL has the option to terminate the lease agreement in 2021. Included in the schedule below are the net minimum lease payment obligations relating to this lease as of March 31, 2016.

The total rent expense related to leased office space for the three months ended March 31, 2016 was $0.1 million (2015:$0.1 million).

Private Equity and Limited Partnerships

From time to time, the Company makes investments in private equity vehicles. As part of the Company's participation in such private equity investments, the Company may make funding commitments. As of March 31, 2016, the Company had commitments to invest an additional $5.3 million (December 31, 2015: $6.1 million) in private equity investments. Included in the schedule below are the minimum payment obligations relating to these investments as of March 31, 2016.

Schedule of Commitments and Contingencies

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

	2016	2017	2018	2019	2020	Thereafter	Total
	($ in thousands)						
Operating lease obligations	$414	$552	$319	$ 86	$ 86	$ 32	$1,489
Private equity and limited partnerships [1]	5,282	—	—	—	—	—	5,282
	$5,696	$552	$319	$ 86	$ 86	$ 32	$6,771

[1] Given the nature of these investments, the Company is unable to determine with any degree of accuracy when these commitments will be called. Therefore, for purposes of the above table, the Company has assumed that all commitments with no fixed payment schedules will be called during the year ending December 31, 2016.

Litigation

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

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9. SEGMENT REPORTING

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

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

Gross Premiums Written by Line of Business

	Three months ended March 31			
	2016		2015	
	($ in thousands)			
Property				
Aviation	$214	0.1 %	$266	0.2 %
Commercial	5,637	3.4	6,449	5.0
Energy	1,768	1.1	1,670	1.3
Motor physical damage	9,365	5.6	7,593	5.9
Personal	26,648	16.0	22,016	17.0
Total Property	43,632	26.2	37,994	29.4
Casualty				
General liability	8,411	5.0	6,398	4.9
Marine liability	3,652	2.2	3,934	3.0
Motor liability	49,568	29.7	43,331	33.4
Professional liability	13,890	8.3	15,059	11.6
Total Casualty	75,521	45.2	68,722	52.9
Specialty				
Financial	15,678	9.4	1,556	1.2
Health	27,195	16.3	20,681	15.9
Workers' compensation	4,766	2.9	729	0.6
Total Specialty	47,639	28.6	22,966	17.7
	$166,792	100.0%	$129,682	100.0%

Gross Premiums Written by Geographic Area of Risks Insured

	Three months ended March 31			
	2016		2015	
	($ in thousands)			
U.S. and Caribbean	$130,744	78.4 %	$94,396	72.8 %
Worldwide [1]	34,358	20.6	33,304	25.7
Europe	1,910	1.1	1,933	1.5
Asia [2]	(220)	(0.1)	49	—
	$166,792	100.0 %	$129,682	100.0%

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

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

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

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

The following is a discussion and analysis of our results of operations for the three months ended March 31, 2016 and 2015 and financial condition as of March 31, 2016 and December 31, 2015. The following discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes, which appear in our annual report on Form 10-K for the fiscal year ended December 31, 2015.

Special Note About Forward-Looking Statements

Certain statements in Management’s Discussion and Analysis, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements generally are identified by the words "believe," "project," "predict," "expect," "anticipate," "estimate," "intend," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" (refer to Part I, Item 1A) contained in our annual report on Form 10-K for the fiscal year ended December 31, 2015. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned not to place undue reliance on the forward looking statements which speak only to the dates on which they were made.

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

General

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

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

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

Segments

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

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frequency business; and
severity business.

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

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

Outlook and Trends

The reinsurance industry has experienced significant consolidation in the last several years, fueled by many traditional participants with excess capital looking to strengthen their positions in their core markets. We believe further consolidation will likely continue but do not believe that consolidation will result in a significant reduction in total capital within the industry. Rather, we expect the industry consolidation to create concentrations of capital in fewer, larger participants, and that with a reduction in the number of competitors in the industry, pricing may partially stabilize. Further, while some opportunities may become available on an attractive basis to only the largest reinsurance companies in the industry, we believe that the consolidation trend may create new opportunities for us if less capacity is available in the market as a result of the industry consolidating.

We do not believe that the over-capitalization of the market is uniform across all industry participants and there are many insurers and reinsurers with lower financial security profiles than ours that have and will continue to suffer disproportionately. We believe the value proposition of our reinsurance offering and our differentiated underwriting strategy positions us well to compete for new, targeted business in niche areas that we know and can service well.

A key part of our underwriting strategy is to identify and partner with companies that have suffered dislocation. Accordingly, given declining or flat investment earnings for fixed income investors, resulting from a prolonged low interest rate environment, we believe underwriting opportunities may increase, which we intend to pursue where we believe pricing is economically rational. Conversely, if attractive opportunities are not available on economically rational terms, we anticipate that we will seek to maintain or even reduce premium writings rather than accept mispriced risk in order to conserve our capital for a more opportune environment. We believe that significant price increases could occur if financial and credit markets experience adverse shocks that result in the loss of capital of insurers and reinsurers, or if there are major catastrophic events, especially in North America.

We have recently observed stability and favorable trends in our underlying rates and profitability for our non-standard automobile business. We continue to believe we are achieving acceptable risk adjusted returns on this business and expect to have a high concentration of premium in this line for the foreseeable future.

We have also observed an increase in the size of the U.S. health stop loss market as employers seek to control their health care costs by moving away from first dollar health care plans subject to the Affordable Care Act. We believe that the majority of this growth has been absorbed by large carriers that elect to not purchase reinsurance. However, we have seen growth in the portion of the market controlled by managing general underwriters that rely heavily on quota share reinsurance and we expect to seek to increase our market share in this line.

We have noted that pricing for property catastrophe retro and other property catastrophe business is under severe competitive pressure and we believe much of the business in the market is being priced below expected losses. As such, in 2015 we decreased, and expect to continue to decrease, our focus in this line of business unless there is a market changing event that improves expected profitability.

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Our casualty business is generally comprised of larger, syndicated reinsurance placements for general casualty and professional liability. For most of this business, we were not the lead underwriter and, instead followed the market on these transactions. This business has a longer duration of claim payments than other types of business we have historically written, which leads to a build-up of reserves and exposure over a longer period of time. We expect this portion of our business to grow modestly in 2016.

We also observed a decrease in the underlying rates and profitability for our Florida Homeowners business. If rates and expected profitability continue to decline, we would expect to further decrease the premiums written in this line.

On October 23, 2015, A.M. Best affirmed Greenlight Re's rating of "A (Excellent)" but revised the outlook from stable to negative. We do not expect any of our current business to be affected due to strong client relationships and our capital position; however, there is the potential for new business generation in the rating sensitive areas of the market to be adversely impacted.

While competitive market conditions have made finding and successfully underwriting new business that meets our targeted return hurdles challenging, we believe that we have a strong pipeline of attractive opportunities with counterparties that seek highly customized structures, terms and conditions, which aligns well with our underwriting strategy. We intend to continue to monitor market conditions and pursue opportunities to best position ourselves to participate in future under-served or capacity-constrained markets as they arise, and intend to offer products that we believe will generate favorable returns on equity over the long term. Accordingly, our underlying results and product line concentrations in any given period may vary, perhaps significantly, and are not necessarily indicative of our future results of operations.

Our investment portfolio had a net long exposure of 18.0% as of March 31, 2016. Our goal for 2016 is to protect capital in an uncertain environment and to find investment opportunities on both our long and short portfolios that we believe will generate positive returns. Despite a Federal Reserve interest rate increase in December 2015, monetary policy remains very accommodative globally. Additionally, there are many global economic and political risks that are coming to the forefront. Global equity markets have had a difficult start in 2016 with many global market indices falling, and volatility rising. Given the current investment environment, we deem it appropriate to maintain comparatively lower gross and net equity exposures and to hold a significant position in gold and other macro positions.

Critical Accounting Policies

Our condensed consolidated financial statements contain certain amounts that are inherently subjective in nature and have required management to make assumptions and best estimates to determine reported values. If certain factors, including those described in "Part I. Item IA. — Risk Factors" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, cause actual events or results to differ materially from our underlying assumptions or estimates, there could be a material adverse effect on our results of operations, financial condition or liquidity. We believe that the critical accounting policies set forth in our annual report on Form 10-K for the fiscal year ended December 31, 2015 affect the more significant estimates used in the preparation of our condensed consolidated financial statements. These accounting policies pertain to premium revenues and risk transfer, valuation of investments, loss and loss adjustment expense reserves, acquisition costs, bonus accruals and share-based payments.

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

Results of Operations

Three months ended March 31, 2016 and 2015

For the three months ended March 31, 2016, we reported net income of $28.7 million, compared to a net loss of $24.0 million reported for the same period in 2015. Our net investment income for the three months ended March 31, 2016 was $28.4 million, compared to net investment loss of $24.8 million reported for the same period in 2015. Our investment portfolio managed by DME Advisors, LP reported a gain of 2.5% for the three months ended March 31, 2016, compared to a loss of 1.8% for the same period in 2015. The net underwriting income for the three months ended March 31, 2016 was $3.7 million, compared to underwriting income of $0.8 million reported for the same period in 2015. For the three months ended March 31, 2016, our composite ratio was 93.8%, compared to 95.0% during the same period in 2015. General and administrative expenses for the three months ended March 31, 2016 increased to $7.0 million from $6.2 million for the three months ended March 31, 2015 mainly due to higher personnel related expenses, partially offset by lower professional fees and stock compensation expense.

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Our primary financial goal is to increase the long-term value in fully diluted adjusted book value per share. For the three months ended March 31, 2016, the fully diluted adjusted book value per share increased by $0.71 per share, or 3.2%, to $22.88 per share from $22.17 per share at December 31, 2015. For the three months ended March 31, 2016, the basic adjusted book value per share increased by $0.67 per share, or 3.0%, to $22.96 per share from $22.29 per share at December 31, 2015.

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

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

	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
	($ in thousands, except per share and share amounts)				
Basic adjusted and fully diluted adjusted book value per share numerator:					
Total equity (U.S. GAAP)	$878,975	$848,773	$891,616	$1,127,496	$1,170,648
Less: Non-controlling interest in joint venture	(24,155)	(23,382)	(24,263)	(28,172)	(28,496)
Basic adjusted book value per share numerator	854,820	825,391	867,353	1,099,324	1,142,152
Add: Proceeds from in-the-money stock options issued and outstanding	3,459	11,553	13,260	15,236	16,302
Fully diluted adjusted book value per share numerator	$858,279	$836,944	$880,613	$1,114,560	$1,158,454
Basic adjusted and fully diluted adjusted book value per share denominator:					
Ordinary shares issued and outstanding for basic adjusted book value per share denominator	37,232,537	37,027,467	37,027,467	37,464,546	37,521,627
Add: In-the-money stock options and RSUs issued and outstanding	282,548	717,340	777,340	880,917	976,917
Fully diluted adjusted book value per share denominator	37,515,085	37,744,807	37,804,807	38,345,463	38,498,544
Basic adjusted book value per share	$22.96	$22.29	$23.42	$29.34	$30.44
Fully diluted adjusted book value per share	22.88	22.17	23.29	29.07	30.09

Gross Premiums Written

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

	Three months ended March 31			
	2016		2015	
	($ in thousands)			
Frequency	$152,809	91.6 %	$113,900	87.8 %
Severity	13,983	8.4	15,782	12.2
Total	$166,792	100.0%	$129,682	100.0%

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

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For the three months ended March 31, 2016, our frequency gross premiums written increased by $38.9 million, or 34.2%, compared to the same period in 2015. The increase was primarily driven by new contracts bound during 2016 and premium growth on existing contracts renewed during 2015. The frequency gross premiums written for financial lines increased by $14.1 million during the three months ended March 31, 2016, compared to the same period in 2015, primarily relating to in-force unearned premiums assumed at the inception of a mortgage insurance contract bound during 2016. The gross premiums written for motor liability (including motor physical damage) increased by $8.0 million due to growth in the volume of underlying policies on existing contracts. During the three months ended March 31, 2016, the frequency gross premiums written for personal lines increased by $6.1 million, primarily as a result of a new homeowners' property quota share contract entered into during 2016 which included in-force unearned premiums assumed at inception of the contract. The increase in personal lines was partially offset by a decrease in other homeowners' property contracts which were not renewed or renewed at a lower share during the third quarter of 2015. The specialty health and workers' compensation lines increased by $6.5 million and $4.0 million, respectively, as a result of new quota share contracts written during fiscal year 2015.

For the three months ended March 31, 2016, the severity premiums written decreased by $1.8 million, or 11.4%, compared to the same period in 2015, primarily due to a property catastrophe contract which expired at the end of 2015 and was not renewed. The decrease was partially offset by an increase in premiums written on a new casualty contract entered into in the third quarter of 2015.

Premiums Ceded

For the three months ended March 31, 2016, premiums ceded were $2.1 million compared to $1.6 million for the three months ended March 31, 2015. For the three months ended March 31, 2016, the increase in ceded premiums compared to the same period in 2015 primarily related to a retroceded quota share contract that was entered into during 2015 which had less premiums ceded during the first quarter of 2015 compared to the first quarter of 2016.

Net Premiums Written

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

	Three months ended March 31			
	2016		2015	
	($ in thousands)			
Frequency	$150,703	91.5 %	$112,275	87.7 %
Severity	13,982	8.5	15,781	12.3
Total	$164,685	100.0%	$128,056	100.0%

The change in net premiums written is the net result of the changes in gross premiums written and premiums ceded as explained in the preceding paragraphs.

Net Premiums Earned

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

	Three months ended March 31			
	2016		2015	
	($ in thousands)			
Frequency	$128,327	92.9 %	$88,761	93.6 %

Severity	9,785	7.1	6,032	6.4
Total	$138,112	100.0%	$94,793	100.0%

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

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For the three months ended March 31, 2016, the frequency net premiums earned increased by $39.6 million, or 44.6%, compared to the same period in 2015. The increase was primarily the result of the private passenger motor liability and physical damage contracts which increased by $19.1 million during the three months ended March 31, 2016, compared to the same period in 2015, due to an increase in the volume of underlying premiums earned on contracts in effect during the current period. Our professional lines, specialty health and workers' compensation premiums earned increased by $6.1 million, $4.6 million and $3.1 million, respectively, which were primarily the effect of premiums that were earned during the period relating to new contracts entered into during the second half of 2015. Other lines of business also reported increases in premiums earned with general liability, financial and commercial property, in the aggregate, accounting for $5.5 million of the increase in net earned premiums during the three months ended March 31, 2016.

For the three months ended March 31, 2016, the severity net premiums earned increased by $3.8 million, or 62.2%, compared to the same period in 2015. The increase was primarily the result of premiums that were earned during the period relating to new and renewed severity quota share contracts that were entered into during 2016 and 2015, partially offset by excess of loss severity contracts that expired and were not renewed in 2016.

Loss and Loss Adjustment Expenses Incurred, Net

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

	Three months ended March 31		
	2016		2015
	($ in thousands)		
Frequency	$87,558	96.6%	