GREENLIGHT CAPITAL RE, LTD. Form 10-K February 19, 2013

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

## FORM 10-K

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

For the fiscal year ended December 31, 2012

### 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 (State or Other Jurisdiction of Incorporation or Organization) N/A (I.R.S. Employer Identification No.)

65 Market Street, Suite 1207, Camana Bay P.O. Box 31110 Grand Cayman, KY1-1205 Cayman Islands (Address of Principal Executive Offices)

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

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

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

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

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

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

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 o

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

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

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 o Smaller reporting company o

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

The aggregate market value of voting and non-voting Class A ordinary shares held by non-affiliates of the registrant as of June 30, 2012 was \$742,013,613 based on the closing price of the registrant's Class A ordinary shares reported on the Nasdaq Global Select Market on June 30, 2012, the last business day of the registrant's most recently completed second fiscal quarter. Solely for the purpose of this calculation and for no other purpose, the non-affiliates of the registrant are assumed to be all shareholders of the registrant other than (i) directors of the registrant, (ii) executive officers of the registrant who are identified as ''named executives'' pursuant to Item 11 of this Form 10-K, (iii) any shareholder that beneficially owns 10% or more of the registrant's common shares and (iv) any shareholder that has one or more of its affiliates on the registrant's board of directors. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

Class A Ordinary Shares, \$0.10 par value	30,465,179
Class B Ordinary Shares, \$0.10 par value	6,254,949
(Class)	Outstanding as of February 15, 2013

# DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's 2013 annual meeting of shareholders, to be filed subsequently with the Securities and Exchange Commission, or the SEC, pursuant to Regulation 14A, under the Securities Exchange Act of 1934, as amended, or the Exchange Act, relating to the registrant's annual general meeting of shareholders scheduled to be held on April 30, 2013 are incorporated by reference in Part III of this annual report on Form 10-K.

# GREENLIGHT CAPITAL RE, LTD.

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### PART I

Special Note About Forward-Looking Statements

Certain statements in this Form 10-K, 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, as amended, and Section 21E of the Exchange Act. These forward-looking statements generally are identified by the words "believe," "project," "predict," "expect," "anticipa "estimate," "intend," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and se Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" (refer to Part I, Item 1A) and include but are not limited to:

Our results will fluctuate from period to period and may not be indicative of our long-term prospects;

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

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

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

Rating agencies may downgrade or withdraw our rating;

We depend on DME Advisors, LP, or DME Advisors, to implement our investment strategy;

Loss of key executives could adversely impact our ability to implement our business strategy; and

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

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

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

### Item 1. BUSINESS

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

Reference Greenlight Capital Re Greenlight Re GRIL Verdant

Entity's legal name Greenlight Capital Re, Ltd. Greenlight Reinsurance, Ltd. Greenlight Reinsurance Ireland, Ltd. Verdant Holding Company, Ltd.

### **Company Overview**

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

We are a Cayman Islands headquartered global specialist property and casualty reinsurer with a reinsurance and investment strategy that we believe differentiates us from our competitors. We conduct our reinsurance operations through two licensed and regulated entities: Greenlight Re, based in the Cayman Islands, and GRIL, based in Dublin, Ireland. Our goal is to build long-term shareholder value by offering customized reinsurance solutions in markets where capacity and alternatives are limited, which we believe will provide us with favorable long-term returns on equity. In September 2010, we established GRIL to provide multi-line property and casualty reinsurance capacity to the European broker market and to further serve clients located in Europe.

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.

In addition, from time to time we may seek to form long-term strategic alliances with insurance companies and general agents to complement our property and casualty reinsurance business and our non-traditional investment approach. To facilitate such strategic alliances, we formed Verdant, which, among other activities, has made and may make strategic investments in a select group of property and casualty insurers and general agents in the United States.

Because we 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 be indicative of future performance. Due to the nature of our reinsurance and investment strategies, our operating results will likely fluctuate from period to period.

## Description of Business

Greenlight Re is licensed and regulated by the Cayman Islands Monetary Authority to write property and casualty reinsurance business as well as long term business (e.g., life insurance, long term disability, long term care, etc.).

GRIL is licensed and regulated by the Central Bank of Ireland to write property and casualty reinsurance business. To date we have not written any long term products. Currently, we manage our business on the basis of one operating segment: property and casualty reinsurance. We currently offer excess of loss and quota share products in the property and casualty market. Our underwriting operations are designed to capitalize on inefficiencies that we perceive exist in the traditional approach to underwriting. We believe that we conduct our business differently from traditional reinsurers in multiple ways, including:

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we focus on offering customized reinsurance solutions to select customers at times and in markets where capacity and alternatives are limited rather than pursuing and participating in broadly available traditional property and casualty opportunities;

we aim to build a reinsurance portfolio of frequency and severity contracts with favorable ultimate economic results measured after all loss payments have been made rather than focusing on interim reported results when losses may be incurred but not yet reported or paid;

we seek to act as the lead underwriter on a majority of the contracts we underwrite in an effort to obtain greater influence in negotiating pricing, terms and conditions rather than focusing on taking a minority participation in contracts that have been negotiated and priced by another party;

we maintain a small staff of experienced generalist underwriters that are capable of underwriting many lines of property and casualty business rather than a large staff of underwriters, each with an individual, specific focus on certain lines of business;

we implement a "cradle to grave" service philosophy where the same individual underwrites and services each reinsurance contract rather than separating underwriting and servicing duties among many employees; and

we compensate our management with a cash bonus structure largely dependent on our underwriting results over a multi-year period rather than on premium volume or underwriting results in any given financial accounting period.

Our investment strategy, like our reinsurance strategy, is designed to maximize returns over the long term while minimizing the risk of capital loss. Unlike the investment strategies of many of our competitors, which invest primarily in fixed-income securities either directly or through fixed-fee arrangements with one or more investment managers, our investment strategy is to invest in long and short positions primarily in publicly-traded equity and corporate debt instruments exclusively through a joint venture with DME Advisors which is compensated with both a fixed annual fee based on assets under management and on the positive performance of our portfolio. DME Advisors, which makes investments on our behalf, is a value-oriented investment advisor that analyzes companies' available financial data, business strategies and prospects in an effort to identify undervalued and overvalued securities. DME Advisors is controlled by David Einhorn, the Chairman of our Board of Directors and the president of Greenlight Capital, Inc. DME Advisors has the contractual right to manage substantially all of our investable assets until December 31, 2013, and is required to follow our investment guidelines and to act in a manner that is fair and equitable in allocating investment opportunities to us. However, DME Advisors is not otherwise restricted with respect to the nature or timing of making investments for our account.

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

We characterize the reinsurance risks we assume as frequency or severity and aim to balance the risks and opportunities of our underwriting activities by creating a diversified portfolio of both types of businesses, although we generally have a preference for frequency business.

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

Severity business is typically characterized by contracts with the potential for significant losses emanating from one event, or multiple events. Clients generally buy this protection to reduce 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 our frequency business.

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While we intend to continue to add to, and diversify, our portfolio, our allocation of risk will vary based on our perception of the opportunities available in each line of business. Moreover, our focus on certain lines will fluctuate based upon market conditions and we may only offer or underwrite a limited number of lines in any given period. We intend to continue to:

target markets where capacity and alternatives are underserved or constrained;

seek clients with appropriate expertise in their line of business;

employ strict underwriting discipline;

select reinsurance opportunities with favorable returns on capital over the life of the contract; and

strengthen and expand relationships with existing clients.

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

-	Year ended	December	: 31						
	2012			2011			2010		
	(\$ in thousa	nds)							
Property									
Commercial lines	\$15,110	3.5	%	\$10,019	2.5	%	\$15,468	3.7	%
Motor physical damage (2)	60,262	14.1		7,026	1.8		3,712	0.9	
Personal lines	81,662	19.1		158,482	39.9		185,216	44.7	
Total Property	157,034	36.7		175,527	44.2		204,396	49.3	
Casualty									
General liability	22,462	5.3		34,379	8.6		42,979	10.4	
Marine liability	2,240	0.5		360	0.1		483	0.1	
Motor liability	178,204	41.7		86,937	21.9		55,278	13.3	
Professional liability	17,301	4.0		20,631	5.2		8,877	2.1	
Total Casualty	220,207	51.5		142,307	35.8		107,617	25.9	
Specialty									
Financial (1)	(256)	(0.1	)	12,364	3.1		16,650	4.0	
Health	33,874	7.9		38,640	9.7		66,649	16.1	
Medical malpractice (1)							(1,929)	(0.5	)
Workers' compensation	16,985	4.0		28,821	7.2		21,467	5.2	
Total Specialty	50,603	11.8		79,825	20.0		102,837	24.8	
	\$427,844	100.0	%	\$397,659	100.0	%	\$414,850	100.0	%

The negative balance represents reversal of premiums due to termination of contracts or premiums returned upon commutation of contracts.
During 2012, we reclassified the presentation of "motor physical damage" from Casualty to Property to more accurately reflect this line of business. The historical comparative balances for the years ended

(2) December 31, 2011 and 2010 presented above, have been reclassified to conform to the current period presentation.

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

	Year ended	Year ended December 31								
	2012			2011			2010			
	(\$ in thousar	nds)								
U.S.	\$399,082	93.3	%	\$353,999	89.0	%	\$374,330	90.2	%	
Worldwide (1)	11,134	2.6		22,595	5.7		32,549	7.8		
Caribbean	328	0.1		300	0.1		300	0.1		
Europe	17,300	4.0		20,765	5.2		7,671	1.9		
	\$427,844	100.0	%	\$397,659	100.0	%	\$414,850	100.0	%	

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

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

### Marketing and Distribution

A majority of our business is sourced through reinsurance brokers. Brokerage distribution channels provide us with access to an efficient, variable cost and global distribution system without the significant time and expense that would be incurred in creating a wholly-owned distribution network. We believe that our financial strength rating, unencumbered balance sheet and superior client service are essential for creating long-term relationships with clients and brokers.

We aim to build and strengthen long-term relationships with global reinsurance brokers. Our management team has significant relationships with most of the primary and specialty broker intermediaries in the reinsurance marketplace. We believe that by maintaining close relationships with brokers we will be able to continue to obtain access to a broad range of reinsurance clients and opportunities. We focus on the quality and financial strength of any brokerage firm with which we do business. Brokers do not have the authority to bind us to any reinsurance contract.

We have entered into a service agreement with a specialist service provider. Under the agreement, the specialist provides administration and support in developing and maintaining relationships, reviewing and recommending programs and managing risks on certain specialty lines of business. The service provider does not have any authority to bind the Company to any reinsurance contracts.

Reinsurance brokers receive a brokerage commission that is usually a percentage of gross premiums written. We seek to become the first choice of brokers and clients by providing:

customized solutions that address the specific business needs of our clients; rapid and substantive responses to proposal and pricing quote requests; timely payment of claims; financial security; and clear indication of risks we will and will not underwrite.

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

	Year ended December 31								
	2012			2011			2010		
(\$ in thousands)									
Largest broker	\$242,665	56.7	%	\$139,251	35.0	%	\$122,558	29.6	%
2nd largest broker	63,044	14.7		107,641	27.1		117,842	28.4	
3rd largest broker	48,497	11.3		50,985	12.8		87,818	21.2	
4th largest broker	—			49,398	12.4		_		
	\$354,206	82.7	%	\$347,275	87.3	%	\$328,218	79.2	%

We believe that by maintaining close relationships with brokers, we are able to obtain access to a range of potential clients that meet our criteria. We meet frequently in the Cayman Islands, Ireland and elsewhere with brokers and senior representatives of clients and prospective clients. All contract submissions are received, reviewed and approved in our executive offices in the Cayman Islands or Ireland. Due to our dependence on brokers, the inability to obtain business from them could adversely affect our business strategy. See "Risk Factors – The inability to obtain business provided from brokers could adversely affect our business strategy and results of operations". In addition, we may assume a degree of credit risk of our reinsurance brokers. See "Risk Factors — The involvement of reinsurance brokers subjects us to their credit risk."

We believe that diversity in our sources of business helps reduce any potential adverse effects arising out of the termination of any one of our business relationships.

#### Underwriting and Risk Management

We have established a senior team of generalist underwriters and actuaries to operate our reinsurance business. We believe that our underwriters' experience, coupled with our approach to underwriting, allows us to deploy our capital in a variety of lines of business and to capitalize on opportunities that we believe offer favorable returns on equity over the long term. Our underwriters and actuaries have expertise in a number of lines of business and we also look to outside consultants on a fee-for-service basis to help us with niche areas of expertise when we deem it appropriate. We generally apply the following underwriting and risk management principles:

#### Economics of Results

Our primary goal is to build a reinsurance portfolio that has attractive economic results. We may underwrite a reinsurance contract that may not demonstrate immediate short-term accounting benefits if we believe it will provide a favorable return on capital over the life of the contract. In pricing our products, we assume investment returns that approximate the risk-free rate, which we review and adjust, if necessary, on an annual basis.

#### Actuarially Based Pricing

We have developed and use proprietary actuarial models and also use several commercially available tools to price our business. Our models not only consider conventional underwriting metrics, but also incorporate a component for risk aversion that places greater weight on scenarios that result in greater losses. We price each transaction based on our view of the merits and structure of the transaction.

#### Team Approach

Each transaction typically is assigned to an underwriter and an actuary to evaluate underwriting, structuring and pricing. Prior to committing capital to any transaction, the evaluation team creates a deal analysis memorandum that highlights the key components of the proposed transaction and presents the proposed transaction to a senior group of staff, including underwriting, actuarial and finance. This group is provided an opportunity to critically evaluate the proposed transaction. Additionally, our Chief Executive Officer or Chief Underwriting Officer must agree that the transaction meets our underwriting guidelines before we submit a firm proposal. Our Chief Executive Officer and Chief Underwriting Officer maintain the exclusive ultimate authority to bind contracts.

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### Act as Lead Underwriter

Typically, one reinsurer acts as the lead underwriter in negotiating principal policy terms and pricing of reinsurance contracts. We aim to act as that lead underwriter for the majority of the aggregate premiums that we underwrite. We believe that lead underwriting is an important factor in achieving long-term success, as lead underwriters typically have greater influence in negotiating pricing, terms and conditions. In addition, we believe that reinsurers that lead policies are generally solicited for a broader range of business and have greater access to attractive opportunities.

#### Alignment of Company and Client's Interests

We seek to ensure each contract we underwrite aligns our interests with our client's interests. Specifically, depending upon the opportunity we may seek to:

- pay our clients a commission based upon a predetermined percentage of the profit we realize on the business, which we refer to as a profit commission;
- provide that the client pays a predetermined amount of all losses before our reinsurance policy incurs a loss payment, which we refer to as self insured retentions;
- provide that the client pays a predetermined proportion of all losses above a predetermined amount, which we refer to as co-participation; and/or
- charge the client a premium for reinstatement of reinsurance coverage to the full amount, which we refer to as reinstatement premium, if coverage has been reduced as a result of a reinsurance loss payment.

We believe that through profit commissions, self-insured retentions, co-participation, reinstatement premiums or other terms within the contract, our clients are provided with an incentive to manage our interests. We believe that aligning our interests with our clients' interests promotes accurate reporting of information, timely settling and management of claims and limits the potential for disputes.

#### Integrated Underwriting Operations

We implement a "cradle to grave" service philosophy where the same individual underwrites and services each reinsurance contract. We believe this method enables us to best understand the risks and likelihood of loss for any particular contract and to provide superior client service.

## Detailed Contract Diligence

We are highly selective in the contracts we choose to underwrite and spend a significant amount of time with our clients and brokers to understand the risks and appropriately structure the contracts. We usually obtain significant amounts of data from our clients to conduct a thorough actuarial modeling analysis. As part of our pricing and underwriting process, we assess, among other factors:

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

Underwriting Authorities

We use actuarial models that we produce and apply our underwriting guidelines to analyze each reinsurance opportunity before we commit capital. The Underwriting Committee of our Board of Directors sets parameters for zonal and aggregate property catastrophic caps and limits for maximum loss potential under any individual contract. The Underwriting Committee must approve any exceptions to the established limits. Our approach to risk control imposes an absolute loss limit on our natural

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catastrophic exposures rather than an estimate of probable maximum losses and we have established zonal and aggregate limits. We manage all non-catastrophic exposures and other risks by analyzing our maximum loss potential on a contract-by-contract basis. The maximum underwriting authorities, as set by our Underwriting Committee, may be amended from time to time, including as and when our capital base changes.

### **Retrocessional Coverage**

We may from time to time purchase retrocessional coverage for one or more of the following reasons: to manage our overall exposure, to reduce our net liability on individual risks, to obtain additional underwriting capacity and to balance our 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 our interests with those of our counterparties.

The amount of retrocessional coverage that we purchase varies based on numerous factors, some of which include the inherent riskiness of the portfolio of business we write and the level of our capital base. Given our opportunistic approach to underwriting, which may change the composition and inherent riskiness of our underwriting portfolio on an annual basis, it is not possible to predict the level of retrocessional coverage that we will purchase in any given year. To date, our retrocessional coverage has been primarily used as a tool to align our interests with those of our counterparties.

We intend to only purchase uncollateralized retrocessional coverage from a reinsurer with a minimum financial strength rating of "A– (Excellent)" from A.M. Best Company, Inc., or "A.M. Best", or an equivalent rating from a recognized rating service. For non-rated reinsurers, we monitor and obtain collateral in the form of cash, funds withheld, letters of credit or other collateral in the form of guarantees. As of December 31, 2012, the aggregate amount due from reinsurers from retrocessional coverages represents 9.7% (2011: 12.3%) of our gross outstanding loss reserves. As of December 31, 2012, \$34.3 million of our losses recoverable were from unrated reinsurers. We retained \$11.4 million of cash collateral from unrated reinsurers with whom we have losses recoverable, and held other collateral in the form of guarantees. Additionally, we retained funds withheld of \$6.0 million as of December 31, 2012, on other retroceded contracts. We regularly evaluate the financial condition of our reinsurers to assess their ability to honor their obligations. At December 31, 2012, no provision for uncollectible losses recoverable was considered necessary.

#### Capital Allocation

We allocate capital to each contract that we bind. Our capital allocation methodology uses the probability and magnitude of potential for economic loss. We allocate capital for the period from each contract's inception until the risk is resolved. We have developed a proprietary return on equity capital allocation model to evaluate and price each reinsurance contract that we underwrite. We use different return on equity thresholds depending on the type and risk characteristics of the business we underwrite.

#### **Claims Management**

We implement a "cradle to grave" service philosophy where the same individual underwrites and services each reinsurance contract.

Our claims management process begins upon receipt of claims submissions from our clients, which the underwriter reviews for authorization prior to entry and settlement. We believe this ensures that we pay claims consistently with the terms and conditions of each contract. Depending on the size of the claim payment, additional approvals for payment must be obtained from our executive officers.

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

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

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## Reserves

Our reserving philosophy is to reserve to our best estimates of the actual results of the risks underwritten. Our actuaries and underwriters provide reserving estimates on a quarterly basis calculated to meet our estimated future obligations. We reserve on a transaction by transaction basis. We engage outside actuaries who review these estimates at least once a year. Due to the use of different assumptions, accounting treatment and loss experience, the amount we establish as reserves with respect to individual risks, transactions or classes of business may be greater or less than those established by clients or ceding companies. Reserves may also include unearned premiums, premium deposits, profit sharing earned but not yet paid, claims reported but not yet paid, claims incurred but not reported and claims in the process of settlement.

Reserves do not represent an exact calculation of liability. Rather, reserves represent our best estimate of the expected cost of the ultimate settlement and administration of the claim. Although the methods for establishing reserves are well-tested, some of the major assumptions about anticipated loss emergence patterns are subject to unanticipated fluctuation. We base these estimates on our assessment of facts and circumstances then known, as well as estimates of future trends in claim severity and frequency, judicial theories of liability and other factors, including the actions of third parties, which are beyond our control.

## Collateral Arrangements and Letter of Credit Facilities

We are licensed and admitted as an insurer only in the Cayman Islands and the European Economic Area. Many jurisdictions such as the United States do not permit clients to take credit for reinsurance on their statutory financial statements if such reinsurance is obtained from unlicensed or non-admitted insurers without appropriate collateral. As a result, we anticipate that all of our U.S. clients and a portion of our non-U.S. clients will require us to provide collateral for the contracts we bind with them. We expect this collateral to take the form of funds withheld, trust arrangements or letters of credit. As of December 31, 2012, we had letter of credit facilities with an aggregate amount of \$760.0 million (2011: \$760.0 million). As of December 31, 2012, we had issued letters of credit totaling \$416.5 million (2011: \$382.8 million) to clients. The failure to maintain, replace or increase our letter of credit facilities on commercially acceptable terms may significantly and negatively affect our ability to implement our business strategy. See "Risk Factors — Our failure to maintain sufficient letter of credit facilities or to increase our letter of credit capacity on commercially acceptable terms as we grow could significantly and negatively affect our ability to implement our business strategy."

## Competition

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

Our competitors include ACE Limited, Everest Re, General Re Corporation, Hannover Re Group, Munich Reinsurance Company, PartnerRe Ltd., Swiss Reinsurance Company and Transatlantic Reinsurance Company, which are dominant companies in our industry, as well as smaller companies and other niche reinsurers. Although we seek to provide coverage where capacity and alternatives are limited, we directly compete with these larger companies due to the breadth of their coverage across the property and casualty market in substantially all lines of business.

While we have a limited operating history compared to most of our competitors, we believe that our approach to underwriting allows us to be successful in underwriting transactions against more established competitors.

## Ratings

Currently, our reinsurance subsidiaries, Greenlight Re and GRIL are rated "A (Excellent)" with a stable outlook, and "A-(Excellent)" with a stable outlook, respectively, by A. M. Best. An "A (Excellent)" rating from A.M. Best is the third highest of 15 ratings. We believe that a strong rating is an important factor in the marketing of reinsurance products to clients and brokers. This rating reflects the rating agency's opinion of our financial strength, operating performance and ability to meet obligations. It is not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our Class A ordinary shares.

The failure to maintain a strong rating may significantly and negatively affect our ability to implement our business strategy. See "Risk Factors – A downgrade or withdrawal of our A.M. Best rating would significantly and negatively affect our ability to implement our business strategy successfully."

## Regulations

Cayman Islands Insurance Regulation

The legislative framework for the carrying on of insurance and reinsurance business in and from within the Cayman Islands was repealed and replaced by The Insurance Law, 2010 and underlying regulations thereto (or, the "Law") which was brought into force in the Cayman Islands with effect from November 1, 2012.

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

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

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

to maintain capital and a margin of solvency in accordance with the capital and solvency requirements prescribed by the Law;

to carry on its business in accordance with the terms of the license application submitted to CIMA and to seek the prior approval of CIMA for any proposed change thereto;

to maintain adequate arrangements for the management of risks and a system of governance as approved by CIMA; to maintain a minimum of at least two directors and to seek the prior approval of CIMA in respect of the appointment of directors and officers and to provide CIMA with information in connection therewith and notification of any changes thereto;

to notify CIMA as soon as reasonably practicable of any change of control (direct or indirect) of Greenlight Re and to obtain CIMA's approval for the acquisition, transfer or disposal by any person or group of persons of shares representing more than 10% of Greenlight Re's issued share capital or total voting rights;

to have a place of business in the Cayman Islands and to maintain such resources, including staff and facilities, books and records as CIMA considers appropriate having regard for the nature and scale of the business of Greenlight Re; to submit to CIMA an annual return in the prescribed form together with:

1. financial statements prepared in accordance with any internationally recognised accounting standards, audited by an 1. independent auditor approved by CIMA;

2. an actuarial valuation of Greenlight Re's assets and liabilities, certified by an actuary approved by CIMA;

3. certification of solvency prepared by a person approved by CIMA in accordance with the prescribed requirements;

4. confirmation that the information contained in Greenlight Re's licence application, as modified by any subsequent changes, remains correct; and

5. such other information as may be prescribed by CIMA,

to pay an annual licence fee.

It is the duty of CIMA:

to maintain a general review of insurance practices in the Cayman Islands;

to examine the affairs or business of any licensee or other person carrying on, or who has carried on, insurance business in order to ensure that the Law has been complied with and that the licensee is in a sound financial position and is carrying on its business in a fit and proper manner;

to examine and report on the annual returns delivered to CIMA in terms of the Law; and

to examine and make recommendations with respect to, among other things, proposals for the revocation of licenses and cases of suspected insolvency of licensed entities.

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

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

### Other Regulations in the Cayman Islands

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

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

## Ireland Insurance Regulations

Our Irish subsidiary, GRIL, is authorized as a non-life reinsurance undertaking in accordance with the provisions of the European Communities (Reinsurance) Regulations 2006 ("Irish Regulations"). GRIL is required to comply at all times with the Irish Regulations and with any future conditions imposed on it by the Central Bank of Ireland ("CBI"). In addition, GRIL is required to maintain statutory reserves, particularly in respect of underwriting liabilities and a solvency margin as provided for in the Irish Insurance Acts 1909 to 2009, regulations promulgated thereunder, regulations relating to insurance business or reinsurance business promulgated under the European Communities Act 1972, the Irish Central Bank Acts 1942 to 2011 as amended, regulations promulgated thereunder and directions and guidelines and codes of conduct issued by CBI (the Insurance Acts and Regulations). Assets constituting statutory reserves must comply with admissibility and diversification rules. Statutory reserves must be actuarially certified annually.

## Overview of Investments

Our investment portfolio is managed by DME Advisors, a value-oriented investment advisor that analyzes companies' available financial data, business strategies and prospects in an effort to identify undervalued and overvalued securities. DME Advisors is controlled by David Einhorn, the Chairman of our Board of Directors and the president of Greenlight Capital, Inc. We have entered into an agreement, or the "advisory agreement", wherein the Company,

Greenlight Re, GRIL, and DME Advisors agreed to create a joint venture for the purposes of managing certain jointly held assets. The advisory agreement expires on December 31, 2013, and will renew automatically for successive three-year periods unless at least 90 days prior to the end of the then current term, DME Advisors notifies the other participants, of its desire to terminate the advisory agreement or any other participant notifies DME Advisors of its desire to withdraw from the advisory agreement.

Pursuant to the advisory agreement, DME Advisors has the exclusive right to manage our investments, subject to the investment guidelines adopted by our respective Boards of Directors, for so long as the agreement is in effect. DME Advisors receives two forms of compensation:

a monthly payment based on an annual rate of 1.5% of the capital account balance of each participant; and

a performance allocation based on the positive performance change in such participant's capital account equal to 20% of net profits calculated per annum, subject to a loss carry forward provision.

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

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

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

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

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

a material violation of applicable law relating to DME Advisors' advisory business;

DME Advisors' gross negligence, willful misconduct or reckless disregard of its obligations under the advisory agreement;

a material breach by DME Advisors of Greenlight Re's or GRIL's investment guidelines that is not cured within a 15-day period; or

a material breach by DME Advisors of its obligations to return and deliver assets as we may request.

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

Investment Strategy

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

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

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DME Advisors, which is contractually obligated to adhere to our investment guidelines, makes investment decisions on our behalf, which may include buying public or private corporate equities and current-pay debt instruments, selling securities short and investing in trade claims, debt instruments of distressed issuers, sovereign debt, arbitrages, bank loan participations, derivatives (including options, warrants, swaps and futures), commodities, currencies, leases, break-ups, consolidations, reorganizations and limited partnerships. As of December 31, 2012, DME Advisors was in compliance with our investment guidelines.

### **Investment Guidelines**

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

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

Quality Investments: At least 80% of the assets in the investment portfolio will be held in debt or equity securities (including swaps) of publicly-traded companies (or their subsidiaries) and governments of the Organization of Economic Co-operation and Development, or the "OECD", high income countries, cash, cash equivalents and gold. No more than 10% of the assets in the investment portfolio will be held in private equity securities.

Concentration of Investments: Other than cash, cash equivalents and United States government obligations, no single investment in the investment portfolio will constitute more than 20% of the portfolio.

Liquidity: Assets will be invested in such fashion that Greenlight Re has a reasonable expectation that it can meet any of its liabilities as they become due. Greenlight Re will review with the investment advisor the liquidity of the portfolio on a periodic basis.

Monitoring: Greenlight Re will require the investment advisor to re-evaluate each position in the investment portfolio and to monitor changes in intrinsic value and trading value and provide monthly reports on the investment portfolio to Greenlight Re or as Greenlight Re may reasonably determine.

Leverage: The investment portfolio may not employ greater than 5% indebtedness for borrowed money, including net margin balances, for extended time periods. The investment advisor may use, in the normal course of business, an aggregate of 20% net margin leverage for periods of less than 30 days.

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

Concentration of Investments: Other than cash, cash equivalents and United States government obligations, (1) no single investment in the investment portfolio will constitute more than 10% of the portfolio, (2) the 10 largest investments shall not constitute more than 50% of the total investment portfolio and (3) the investment portfolio shall at all times be comprised of a minimum of 50 debt or equity securities of publicly traded companies (or their subsidiaries).

## Investment Results

## Composition

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

December 31								
2012			2011					
(\$ in thousands)								
\$1,763	0.1	%	\$10,639	1.0	%			
1,004,566	81.0		830,789	75.3				
38,149	3.1		60,033	5.5				
94,648	7.7		97,506	8.8				
38,802	3.1		31,179	2.8				
1,177,928	95.0	%	1,030,146	93.4	%			
58,415	4.7		55,645	5.0				
3,107	0.3		17,349	1.6				
\$1,239,450	100.0	%	\$1,103,140	100.0	%			
	2012 (\$ in thousan \$ 1,763 1,004,566 38,149 94,648 38,802 1,177,928 58,415 3,107	2012 (\$ in thousands) \$1,763 0.1 1,004,566 81.0 38,149 3.1 94,648 7.7 38,802 3.1 1,177,928 95.0 58,415 4.7 3,107 0.3	2012 (\$ in thousands) \$1,763 0.1 % 1,004,566 81.0 38,149 3.1 94,648 7.7 38,802 3.1 1,177,928 95.0 % 58,415 4.7 3,107 0.3	20122011(\$ in thousands)\$1,7630.1(\$ 10,6391,004,56681.0830,78938,1493.160,03394,6487.797,50638,8023.131,1791,177,92895.058,4154.755,6453,1070.317,349	20122011(\$ in thousands)\$1,7630.1% \$10,6391.01,004,56681.0830,78975.338,1493.160,0335.594,6487.797,5068.838,8023.131,1792.81,177,92895.0% 1,030,14693.458,4154.755,6455.03,1070.317,3491.6			

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

	December 31						
	2012		2011				
	(\$ in thousands)						
Equities – listed	\$679,897	74.8	%	\$539,197	78.9	%	
Corporate debt - U.S.	7,708	0.9		1,859	0.3		
Sovereign debt - non U.S.	220,763	24.3		142,760	20.8		
Total short investments	\$908,368	100.0	%	\$683,816	100.0	%	

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

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

	December							
	2012 2				2011			
	Long %	Short % Lo		Long %		Short %		
Debt instruments	0.2	%	(0.7	)%	0.7	%	(0.2	)%
Equities & related derivatives	99.4		(63.3	)	86.3		(51.9	)
Private and unlisted equity securities	2.9				2.0			
Total	102.5	%	(64.0	)%	89.0	%	(52.1	)%

As of December 31, 2012, our exposure to gold on a delta adjusted basis was 11.0% (2011: 8.4%).

The following table represents the composition of our investment portfolio, by industry sector, based on the percentage of assets in our investment account managed by DME Advisors as of December 31, 2012:

percentage of assets in our investment account managed by Divie Advisors as o	Decenit	Jer .	51, 2012.			
Sector	Long %		Short %		Net %	
Basic Materials	5.0	%	(12.8	)%	(7.8	)%
Consumer Cyclical	12.0		(13.8	)	(1.8	)
Consumer Non-Cyclical	1.3		(7.2	)	(5.9	)
Energy	4.2		(0.4	)	3.8	
Financial	13.5		(9.4	)	4.1	
Healthcare	11.2		(3.8	)	7.4	
Industrial	12.2		(5.8	)	6.4	
Technology	42.9		(10.8	)	32.1	
Utilities	0.2		_		0.2	
Total	102.5	%	(64.0	)%	38.5	%

The following table represents the composition of our investment portfolio, by the market capitalization of the underlying security, based on the percentage of assets in our investment account managed by DME Advisors as of December 31, 2012:

Capitalization	Long %		Short %		Net %	
Large Cap Equity (≥\$5 billion)	69.7	%	(38.8	)%	30.9	%
Mid Cap Equity (≥\$1 billion)	27.4		(24.1	)	3.3	
Small Cap Equity (<\$1 billion)	2.3		(0.4	)	1.9	
Debt Instruments	0.2		(0.7	)	(0.5	)
Other Investments	2.9				2.9	
Total	102.5	%	(64.0	)%	38.5	%

### **Investment Returns**

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

	Year ended December 31					
	2012	2011	2010			
	(\$ in thousa	inds)				
Realized gains	\$60,762	\$139,760	\$79,088			
Change in unrealized gains / (losses)	67,569	(75,719	) 48,795			
Investment related foreign exchange gains (losses)	3,682	(6,953	) 6,397			
Interest, dividend and other income	21,131	17,528	18,969			
Interest, dividend and other expenses	(38,545)	(30,837	) (22,939 )			
Investment advisor compensation	(35,658)	(20,661	) (26,304 )			
Net investment income	\$78,941	\$23,118	\$104,006			

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

Quarter	2012	2011	2010	2009	2008	2007	2006	2005	2004
1st	6.5 %	(3.4)%	(1.9)%	4.6 %	(0.9)%	(4.2)%	7.5 %	2.2 %	%
2nd	(3.3)	(1.9)	2.6	13.9	4.5	6.8	2.9	5.4	
3rd	8.8	0.1	3.6	4.3	(15.9)	(0.8)	6.2	3.0	1.3
4th	(4.4)	7.6	6.5	6.4	(5.3)	4.2	5.9	2.9	3.9
Full Year	7.1 %	2.1 %	11.0 %	32.1 %	(17.6)%	5.9 %	24.4 %	14.2 %	5.2 % <sup>(2)</sup>

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

<sup>(2)</sup> Represents the return for the period from July 13, 2004 (date of incorporation) to December 31, 2004.

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

## Internal Risk Management

We review our investment portfolio together with our reinsurance operations on a periodic basis. With the assistance of DME Advisors, we periodically analyze both our assets and liabilities including the numerous components of risk

in our portfolio, such as concentration risk and liquidity risk.

Information Technology

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

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

### Employees

As of December 31, 2012, we had 26 full-time employees, 22 of whom were based in Grand Cayman and 4 based in Dublin, Ireland. We believe that our employee relations are good. None of our employees are subject to collective bargaining agreements, and we are not aware of any current efforts to implement such agreements.

### Additional Information

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

## ITEM 1A. RISK FACTORS

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

## Risks Relating to Our Business

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

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

reinsurance contract pricing;

our assessment of the quality of available reinsurance opportunities;

the volume and mix of reinsurance products we underwrite;

loss experience on our reinsurance liabilities;

the performance of our investment portfolio; and

our ability to assess and integrate our risk management strategy properly.

In particular, we seek attractive opportunities to underwrite products and make investments to achieve favorable returns on equity over the long term. Our investment strategy to invest primarily in long and short positions in publicly-traded equity and debt instruments is subject to market volatility and is likely to be more volatile than traditional fixed-income portfolios that are comprised primarily of investment grade bonds. In addition, our differentiated strategy and focus on long-term growth in book value will result in fluctuations in total premiums written from period to period as we concentrate on underwriting contracts that we believe will generate better long-term, rather than short-term, results. Accordingly, our short-term results of operations may not be indicative of our long-term prospects.

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

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

premium charges; ability to obtain terms and conditions appropriate with the risk being assumed and in accordance with our underwriting guidelines; the general reputation and perceived financial strength of the reinsurer; relationships with reinsurance brokers;

ratings assigned by independent rating agencies;

speed of claims payment and reputation; and

the experience and reputation of the members of our underwriting team in the particular lines of reinsurance we seek to underwrite.

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

Our competitors include ACE Ltd., Everest Re, General Re Corporation, Hannover Re Group, Munich Reinsurance Company, Partner Re Ltd., Swiss Reinsurance Company and Transatlantic Reinsurance Company, which are dominant companies in our industry, as well as smaller companies and other niche reinsurers. Although we seek to provide coverage where capacity and alternatives are limited, we directly compete with these larger companies due to the breadth of their coverage across the property and casualty market in substantially all lines of business.

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

We cannot assure you that we will be able to compete successfully in the reinsurance market. Our failure to compete effectively could significantly and negatively affect our financial condition and results of operations and may increase the likelihood that we may be deemed to be a passive foreign investment company or an investment company. See "Risks Relating to Insurance and Other Regulations — We are subject to the risk of possibly becoming an investment company under U.S. federal securities law."

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

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

the lapse of time from the occurrence of an event to the reporting of the claim and the ultimate resolution or settlement of the claim;

the diversity of development patterns among different types of reinsurance treaties; and the necessary reliance on the client for information regarding claims.

On the majority of premiums we underwrite, our estimation of reserves may be less reliable than the reserve estimations of a reinsurer with a greater volume of business and an established loss history. Actual losses and loss adjustment expenses paid may deviate substantially from the estimates of our loss reserves contained in our financial statements and could negatively affect our results of operations. If we determine our loss reserves to be inadequate, we will increase our loss reserves with a corresponding reduction in our net income and capital in the period in which we identify the deficiency, and such a reduction would also negatively affect our results of operations. If our losses and loss adjustment expenses greatly exceed our loss reserves, our financial condition may be significantly and negatively affected.

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

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

A downgrade or withdrawal of our A.M. Best rating would significantly and negatively affect our ability to implement our business strategy successfully.

Companies, insurers and reinsurance brokers use ratings from independent rating agencies as an important means of assessing the financial strength and quality of reinsurers. A.M. Best has currently assigned a financial strength rating of "A (Excellent)" and "A- (Excellent)" for Greenlight Re and GRIL, respectively. A (Excellent) is the third highest of 15 ratings that A.M. Best issues. These ratings reflect the rating agency's opinion of our financial strength, operating performance and ability to meet obligations. It is not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our Class A ordinary shares. A.M. Best periodically reviews our ratings and may revise one or more of our ratings downward or revoke them at its sole discretion based primarily on its analysis of our balance sheet strength, operating performance and business profile. Factors that may affect such an analysis include:

if we change our business practices from our organizational business plan in a manner that no longer supports our A.M. Best ratings;

if unfavorable financial or market trends impact us;

if our actual losses significantly exceed our loss reserves;

if we are unable to retain our senior management and other key personnel; or

if our investment portfolio incurs significant losses.

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

Some of our reinsurance contracts provide the client with the right to terminate the agreement if our A.M. Best ratings are downgraded below certain rating thresholds. We expect that similar provisions will also be included in some contracts in the future.

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

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

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

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

The U.S. and global economic downturns could harm our business, our liquidity and financial condition and our stock price.

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

A significant decrease in our capital or surplus could enable certain clients to terminate reinsurance agreements or to require additional collateral.

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

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

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

Our future success depends to a significant extent on the efforts of our senior management and other key personnel to implement our business strategy. We believe there are only a limited number of available, qualified executives with

substantial experience in our industry. We could face challenges attracting and retaining personnel in the Cayman Islands and/or in Dublin, Ireland. Accordingly, the loss of the services of one or more of the members of our senior management or other key personnel, or our inability to hire and retain other key personnel, could prevent us from continuing to implement our business strategy and, consequently, significantly and negatively affect our business.

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

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

Under Cayman Islands law, persons who are not Caymanian, do not possess Caymanian status, or are not otherwise entitled to reside and work in the Cayman Islands pursuant to provisions of the Immigration Law (2010 Revision) of the Cayman Islands, which we refer to as the Immigration Law, may not engage in any gainful occupation in the Cayman Islands without an appropriate governmental work permit. Such a work permit may be granted or extended on a continuous basis for a maximum period of seven years (unless the employee is deemed to be exempted from such requirement in accordance with the provisions of the Immigration Law, in which case such period may be extended to nine years and the employee is given the opportunity to apply for permanent residence) upon showing that, after proper public advertisement, no Caymanian or person of Caymanian status, or other person legally and ordinarily resident in the Cayman Islands who meets the minimum standards for the advertised position is available. The failure of these work permits to be granted or extended could prevent us from continuing to implement our business strategy.

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

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

We believe that our modeling, underwriting and information technology and application systems are critical to our business. Moreover, our information technology and application systems have been an important part of our underwriting process and our ability to compete successfully. We have also licensed certain systems and data from third parties. We cannot be certain that we will have access to these, or comparable, service providers, or that our information technology or application systems will continue to operate as intended. A major defect or failure in our internal controls or information technology and application systems could result in management distraction, harm our reputation or increase expenses. We believe appropriate controls and mitigation procedures are in place to prevent significant risk of defect in our internal controls, information technology and application systems of errors or irregularities and any ineffectiveness of such controls and procedures could have a material adverse effect on our business.

Our failure to maintain sufficient letter of credit facilities or to increase our letter of credit capacity on commercially acceptable terms as we grow could significantly and negatively affect our ability to implement our business strategy.

We are not licensed or admitted as a reinsurer in any jurisdiction other than the Cayman Islands and the European Economic Area. Certain jurisdictions, including the United States, do not permit insurance companies to take credit for reinsurance obtained from unlicensed or non-admitted insurers on their statutory financial statements unless appropriate security measures are implemented. Consequently, certain clients will require us to obtain a letter of credit or provide other collateral through funds withheld or trust arrangements. When we obtain a letter of credit facility, we are customarily required to provide collateral to the letter of credit provider in order to secure our obligations under the facility. Our ability to provide collateral, and the costs at which we provide collateral, are primarily dependent on the composition of our investment portfolio.

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

Our banks have accepted, with certain restrictions, our investment portfolio as collateral. In the event of a decline in the market value of our investment portfolio that results in a collateral shortfall, as defined in each letter of credit facility, we have the right, at our option, to reduce the outstanding obligations under the applicable letter of credit facility, to deposit additional collateral or to change the collateral composition in order to cure the shortfall. If the shortfall is not cured within the prescribed time period, an event of default will immediately occur. We will be prohibited from issuing additional letters of credit until any shortfall is cured.

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

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

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

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

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

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

Since we began underwriting operations in April 2006, substantially all of our business has been placed through brokered transactions, which involve a limited number of reinsurance brokers which exposes us to concentration risk. In 2012, we had three brokers (2011: four brokers) that in aggregate accounted for approximately 82.7% (2011: 87.3%) of our gross premiums written. Because broker-produced business is concentrated with a small number of brokers, we are exposed to concentration risk. To lose or fail to expand all or a substantial portion of the brokered business provided through brokers, many of whom may not be familiar with our Cayman Islands jurisdiction, could significantly and negatively affect our business and results of operations.

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

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

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

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

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

Certain of our reinsurance operations expose us to claims arising out of unpredictable catastrophic events, such as hurricanes, hailstorms, tornados, windstorms, severe winter weather, earthquakes, floods, fires, explosions, volcanic eruptions and other natural or man-made disasters. The incidence and severity of catastrophes are inherently unpredictable but the loss experience of property catastrophe reinsurers has been generally characterized as low frequency and high severity. Claims from catastrophic events could reduce our earnings and cause substantial volatility in our results of operations for any fiscal quarter or year and adversely affect our financial condition. Corresponding reductions in our surplus levels could impact our ability to write new reinsurance policies.

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

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

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

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

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

Changing climate conditions may adversely affect our financial condition, profitability or cash flows.

Climate change, to the extent it produces extreme changes in temperatures and changes in weather patterns, could impact the frequency or severity of weather events and wildfires. Further, it could impact the affordability and availability of homeowners insurance, which could have an impact on pricing. Changes in weather patterns could also affect the frequency and severity of other natural catastrophe events to which we may be exposed.

The involvement of reinsurance brokers subjects us to their credit risk.

In accordance with industry practice, we frequently pay amounts owed on claims under our policies to reinsurance brokers, and these brokers, in turn, remit these amounts to the ceding companies that have reinsured a portion of their liabilities with us. In some jurisdictions, if a broker fails to make such a payment, we might remain liable to the client

for the deficiency notwithstanding the broker's obligation to make such payment. Conversely, in certain jurisdictions, when the client pays premiums for policies to reinsurance brokers for payment to us, these premiums are considered to have been paid and the client will no longer be liable to us for these premiums, whether or not we have actually received them. Consequently, we assume a degree of credit risk associated with brokers around the world.

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

We purchase reinsurance for certain liabilities we reinsure, which we refer to as retrocessional coverage, in order to mitigate the effect of a potential concentration of losses upon our financial condition. The insolvency or inability or refusal of a retrocessionaire to make payments under the terms of its agreement with us could have an adverse effect on us because we remain liable to our client. From time to time, market conditions have limited, and in some cases have prevented, reinsurers

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from obtaining the types and amounts of retrocessional coverage that they consider necessary for their business needs. Accordingly, we may not be able to obtain our desired amounts of retrocessional coverage or negotiate terms that we deem appropriate or acceptable or obtain retrocessional coverage from entities with satisfactory creditworthiness. Our failure to establish adequate retrocessional arrangements or the failure of our retrocessional arrangements to protect us from overly concentrated risk exposure could significantly and negatively affect our business, financial condition and results of operations.

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

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

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

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

Under Delaware law, interested party transactions are voidable.

Risks Relating to Insurance and Other Regulations

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

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

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

Further CIMA may revoke our license if:

we cease to carry on reinsurance business; the direction and management of our reinsurance business has not been conducted in a fit and proper manner;

a person holding a position as a director, manager or officer is not a fit and proper person to hold the respective position; or

we become bankrupt or go into liquidation or we are wound up or otherwise dissolved.

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

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

Previously, Greenlight Re, our Cayman Islands subsidiary, was required to maintain a minimum net worth (as defined under the Law) of at least 100,000 Cayman Islands dollars (which was equal to approximately US\$120,000). During 2012, the Governor in Cabinet of the Cayman Islands adopted The Insurance (Capital and Solvency) (Classes B, C, and D Insurers) Regulations, 2012 (the "Capital and Solvency Regulations") in exercise of the powers conferred by section 40 of The Insurance Law, 2010. The Capital and Solvency Regulations impose on Greenlight Re a minimum capital requirement of US\$50 million, a prescribed capital requirement of US\$310.6 million and a requirement to maintain solvency equal to or in excess of the total prescribed capital requirement (the "Capital Requirements"). Greenlight Re has, as of December 31, 2012, been in compliance with the Capital Requirements.

GRIL, our Irish subsidiary, is required to maintain statutory reserves, particularly in respect of underwriting liabilities and a solvency margin of US\$8.3 million as of December 31, 2012 as provided for in the Irish Insurance Acts 1909 to 2009, regulations promulgated thereunder, regulations relating to insurance business promulgated under the European Communities Act 1972, the Irish Central Bank Acts 1942 to 2011 as amended, regulations promulgated thereunder and directions and guidelines and codes of conduct, issued by CBI (the Insurance Acts and Regulations). Assets constituting statutory reserves must comply with admissibility, diversification, localization and currency matching rules. Statutory reserves must be actuarially certified annually.

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

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

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

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

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

In the United States, the Investment Company Act regulates certain companies that invest in or trade securities. We rely on an exemption under the Investment Company Act for an entity organized and regulated as a foreign insurance company which is engaged primarily and predominantly in the reinsurance of risks on insurance agreements. The law in this area is subjective and there is a lack of guidance as to the meaning of "primarily and predominantly" under the relevant exemption to the Investment Company Act. For example, there is no standard for the amount of premiums that need to be written relative to the level of an entity's capital in order to qualify for the exemption. If this exemption

were deemed inapplicable, we would have to register under the Investment Company Act as an investment company. Registered investment companies are subject to extensive, restrictive and potentially adverse regulation relating to, among other things, operating methods, management, capital structure, leverage, dividends and transactions with affiliates. Registered investment companies are not permitted to operate their business in the manner in which we operate our business, nor are registered investment companies permitted to have many of the relationships that we have with our affiliated companies. Accordingly, we likely would not be permitted to engage DME Advisors as our investment advisor, unless we obtained board and shareholder approvals under the Investment Company Act. If DME Advisors were not our investment advisor, DME Advisors would liquidate our investment portfolio and we would seek to identify and retain another investment advisor with a value-oriented investment philosophy. If we could not identify or retain such an advisor, we would be required to make substantial modifications to our investment strategy. Any such changes to our investment strategy could significantly and negatively impact our investment results, financial condition and our ability to implement our business strategy.

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

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

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

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

More specifically with respect to our Irish subsidiary, European legislation known as "Solvency II", which will govern the prudential regulation of insurers and reinsurers will require insurers and reinsurers in Europe to meet risk-based solvency requirements. It will also impose group solvency and governance requirements on groups with insurers and/or reinsurers operating in the European Economic Area. While Solvency II was originally supposed to become effective by November 1 2012, there have been a series of delays in the European Parliament vote to approve revised dates for transposition and implementation of Solvency II. The current proposed date for transposition of Solvency II as set out by the EU Commission is June 30, 2013 with the implementation of Solvency II by January 1, 2014. However, further delays are possible which would mean transposition of Solvency II may be delayed further until January 1, 2014 with legal enforcement taking effect on January 1, 2015 or later.

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

We may not be able to comply fully with, or obtain desired exemptions from, revised statutes, regulations and policies that currently, or may in the future, govern the conduct of our business. Failure to comply with, or to obtain desired authorizations and/or exemptions under, any applicable laws could result in restrictions on our ability to do business or undertake activities that are regulated in one or more of the jurisdictions in which we operate and could subject us to fines and other sanctions. In addition, changes in the laws or regulations to which our subsidiaries are subject or may become subject, or in the interpretations thereof by enforcement or regulatory agencies, could have a material adverse effect on our business.

Risks Relating to Our Investment Strategy and Our Investment Advisor

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

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

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The performance of our investment portfolio depends to a great extent on the ability of DME Advisors to select and manage appropriate investments. Our advisory agreement with DME Advisors terminates on December 31, 2013, unless extended, and we have limited ability to terminate the advisory agreement earlier. We cannot assure you that DME Advisors will be successful in meeting our investment objectives or that the advisory agreement with DME Advisors will be renewed. The failure of DME Advisors to perform adequately could significantly and negatively affect our business, results of operations and financial condition.

We depend upon DME Advisors to implement our investment strategy.

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

Our advisory agreement with DME Advisors does not allow us to terminate the agreement in the event that DME Advisors loses any or all of its principals or key personnel. The advisory agreement requires that we utilize the advisory services of DME Advisors exclusively until December 31, 2013, subject to limited termination provisions. See "— The advisory agreement has limited termination provisions."

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

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

The risks associated with DME Advisors' value-oriented investment strategy may be substantially greater than the risks associated with traditional fixed-income investment strategies. In addition, making long equity investments in an up or rising market may increase the risk of not generating profits on these investments and we may incur losses if the market declines. Similarly, making short equity investments in a down or falling market may increase the risk of not generating profits on these investments and we may incur losses if the market declines. Similarly, making short equity investments in a down or falling market may increase the risk of not generating profits on these investments and we may incur losses if the market rises. The market price of the Class A ordinary shares may be volatile and the risk of loss may be greater when compared with other reinsurance companies. The success of our investment strategy may also be affected by general economic conditions. Unexpected market volatility and illiquidity associated with our investments could significantly and negatively affect our investment portfolio results.

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

None of DME Advisors or its principals, including David Einhorn, Chairman of our Board of Directors, and the President of Greenlight Capital, Inc., are obligated to devote any specific amount of time to the affairs of our Company. Affiliates of DME Advisors, including Greenlight Capital, Inc., manage and expect to continue to manage other client accounts, some of which have objectives similar to ours, including collective investment vehicles

managed by DME Advisors' affiliates and in which DME Advisors or its affiliates may have an equity interest. Pursuant to our advisory agreement with DME Advisors, DME Advisors has the exclusive right to manage our investment portfolio and is required to follow our investment guidelines and act in a manner that is fair and equitable in allocating investment opportunities to us, but the agreement does not otherwise impose any specific obligations or requirements concerning allocation of time, effort or investment opportunities to us or any restriction on the nature or timing of investments for our account and for DME Advisors' own account or other accounts that DME Advisors or its affiliates may manage. If we compete for any investment opportunity with another entity that DME Advisors or its affiliates manage, DME Advisors is not required to afford us any exclusivity or priority. DME Advisors' interest and the interests of its affiliates, including Greenlight Capital, Inc., may at times conflict, possibly to DME Advisors' detriment, which may potentially adversely affect our investment opportunities and returns.

Although Mr. Einhorn, Chairman of our Board of Directors, recused himself from the vote approving and adopting our investment guidelines, he is not, under Cayman Islands law, legally restricted from participating in making decisions with

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respect to our investment guidelines. Accordingly, his involvement as a member of our Board of Directors may lead to a conflict of interest.

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

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

Our investment guidelines provide that DME Advisors may commit up to 20% of Greenlight Re's assets under management (10% for GRIL) to any one investment. In addition, GRIL's investment guidelines require that the 10 largest investments shall not constitute more than 50% of the total investment portfolio and the investment portfolio shall at all times be comprised of a minimum of 50 debt or equity securities of publicly traded companies. Accordingly, from time to time we may hold a few, relatively large security positions in relation to our capital. As of December 31, 2012, we were invested in approximately 89 equity and debt securities and the largest five long and short positions comprised an aggregate of 31% and 18%, respectively, of our investment portfolio. Since our investment portfolio may not be widely diversified, it may be subject to more rapid changes in value than would be the case if the investment portfolio were required to maintain a wide diversification among companies, securities and types of securities.

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

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

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

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

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

DME Advisors may effectuate short sales that subject us to unlimited loss potential.

DME Advisors may enter into transactions in which it sells a security it does not own, which we refer to as a short sale, in anticipation of a decline in the market value of the security. Short sales for our account theoretically will

involve unlimited loss potential since the market price of securities sold short may continuously increase. Under adverse market conditions, DME Advisors might have difficulty purchasing securities to meet short sale delivery obligations and may have to cover short sales at suboptimal prices.