GREENLIGHT CAPITAL RE, LTD.
Form 10-Q
April 30, 2018

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨ Emerging growth company ¨

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

Class A Ordinary Shares, $0.10 par value	31,283,898
Class B Ordinary Shares, $0.10 par value	6,254,715
(Class)	Outstanding as of April 27, 2018

GREENLIGHT CAPITAL RE, LTD.

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

March 31, 2018 and December 31, 2017
(expressed in thousands of U.S. dollars, except per share and share amounts)

	March 31, 2018 (unaudited)	December 31, 2017 (audited)
Assets		
Investments		
Debt instruments, trading, at fair value	$19,350	$7,180
Equity securities, trading, at fair value	955,255	1,203,672
Other investments, at fair value	70,127	152,132
Total investments	1,044,732	1,362,984
Cash and cash equivalents	37,454	27,285
Restricted cash and cash equivalents	1,254,055	1,503,813
Financial contracts receivable, at fair value	54,131	12,893
Reinsurance balances receivable	326,256	301,762
Loss and loss adjustment expenses recoverable	39,482	29,459
Deferred acquisition costs, net	60,263	62,350
Unearned premiums ceded	25,450	25,120
Notes receivable, net	31,008	28,497
Other assets	3,818	3,230
Total assets	$2,876,649	$3,357,393
Liabilities and equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$676,938	$912,797
Financial contracts payable, at fair value	15,397	22,222
Due to prime brokers and other financial institutions	574,800	672,700
Loss and loss adjustment expense reserves	484,599	464,380
Unearned premium reserves	255,758	255,818
Reinsurance balances payable	139,112	144,058
Funds withheld	15,610	23,579
Other liabilities	6,814	10,413
Total liabilities	2,169,028	2,505,967
Redeemable non-controlling interest in related party joint venture	6,705	7,169
Equity		
Preferred share capital (par value $0.10; authorized, 50,000,000; none issued)	—	—
Ordinary share capital (Class A: par value $0.10; authorized, 100,000,000; issued and outstanding, 31,295,933 (2017: 31,104,830): Class B: par value $0.10; authorized, 25,000,000; issued and outstanding, 6,254,715 (2017: 6,254,715))	3,755	3,736
Additional paid-in capital	504,570	503,316
Retained earnings	181,520	324,272
Shareholders’ equity attributable to shareholders	689,845	831,324
Non-controlling interest in related party joint venture	11,071	12,933

Total equity	700,916	844,257
Total liabilities, redeemable non-controlling interest and equity	$2,876,649	$ 3,357,393

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

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

For the three months ended March 31, 2018 and 2017
(expressed in thousands of U.S. dollars, except per share and share amounts)

	Three months ended March 31	
	2018	2017
Revenues		
Gross premiums written	$175,125	$197,214
Gross premiums ceded	(29,843)	(3,426)
Net premiums written	145,282	193,788
Change in net unearned premium reserves	562	(41,886)
Net premiums earned	145,844	151,902
Net investment income (loss) [net of related party expenses of $4,454 and $5,497]	(145,216)	11,618
Other income (expense), net	(487)	(7)
Total revenues	141	163,513
Expenses		
Loss and loss adjustment expenses incurred, net	95,824	104,812
Acquisition costs, net	44,209	43,211
General and administrative expenses	5,956	6,743
Total expenses	145,989	154,766
Income (loss) before income tax	(145,848)	8,747
Income tax (expense) benefit	770	(121)
Net income (loss) including non-controlling interest	(145,078)	8,626
Loss (income) attributable to non-controlling interest in related party joint venture	2,326	(252)
Net income (loss)	$(142,752)	$8,374
Earnings (loss) per share		
Basic	$(3.85)	$0.22
Diluted	$(3.85)	$0.22
Weighted average number of ordinary shares used in the determination of earnings and loss per share		
Basic	37,087,169	37,341,338
Diluted	37,087,169	37,376,649

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

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

For the three months ended March 31, 2018 and 2017
(expressed in thousands of U.S. dollars)

	Ordinary share capital	Additional paid-in capital	Retained earnings	Shareholders' equity attributable to shareholders	Non-controlling interest in joint venture	Total equity
Balance at December 31, 2016	$ 3,737	$ 500,337	$ 370,168	$ 874,242	$ 11,561	$ 885,803
Issue of Class A ordinary shares, net of forfeitures	7	—	—	7	—	7
Share-based compensation expense, net of forfeitures	—	843	—	843	—	843
Change in non-controlling interest in related party joint venture	—	—	—	—	328	328
Net income (loss)	—	—	8,374	8,374	—	8,374
Balance at March 31, 2017	$ 3,744	$ 501,180	$ 378,542	$ 883,466	$ 11,889	$ 895,355
Balance at December 31, 2017	$ 3,736	$ 503,316	$ 324,272	$ 831,324	$ 12,933	$ 844,257
Issue of Class A ordinary shares, net of forfeitures	19	—	—	19	—	19
Share-based compensation expense, net of forfeitures	—	1,254	—	1,254	—	1,254
Change in non-controlling interest in related party joint venture	—	—	—	—	(1,862)	(1,862)
Net income (loss)	—	—	(142,752)	(142,752)	—	(142,752)
Balance at March 31, 2018	$ 3,755	$ 504,570	$ 181,520	$ 689,845	$ 11,071	$ 700,916

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

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
For the three months ended March 31, 2018 and 2017
(expressed in thousands of U.S. dollars)

	Three months ended March 31	
	2018	2017
Cash provided by (used in) operating activities		
Net income (loss)	$(142,752)	$8,374
Adjustments to reconcile net income or loss to net cash provided by (used in) operating activities		
Net change in unrealized gains and losses on investments and financial contracts	3,695	23,378
Net realized (gains) losses on investments and financial contracts	140,255	(48,967)
Foreign exchange (gains) losses on investments	387	6,480
Income (loss) attributable to total non-controlling interest in related party joint venture	(2,326)	252
Share-based compensation expense, net of forfeitures	1,273	850
Depreciation expense	92	92
Net change in		
Reinsurance balances receivable	(24,494)	(49,321)
Loss and loss adjustment expenses recoverable	(10,023)	122
Deferred acquisition costs, net	2,087	(12,448)
Unearned premiums ceded	(330)	(778)
Other assets	(680)	494
Loss and loss adjustment expense reserves	20,219	33,389
Unearned premium reserves	(60)	42,741
Reinsurance balances payable	(4,946)	10,834
Funds withheld	(7,969)	(351)
Other liabilities	(3,599)	(888)
Performance compensation payable to related party	—	1,189
Net cash provided by (used in) operating activities	(29,171)	15,442
Investing activities		
Purchases of investments, trading	(167,809)	(365,970)
Sales of investments, trading	431,737	239,048
Payments for financial contracts	(85,146)	(10,538)
Proceeds from financial contracts	18,665	47,295
Securities sold, not yet purchased	139,683	323,273
Dispositions of securities sold, not yet purchased	(448,376)	(345,313)
Change in due to prime brokers and other financial institutions	(97,900)	238,968
Change in notes receivable, net	(2,511)	(1,502)
Net cash provided by (used in) investing activities	(211,657)	125,261
Financing activities		
Net cash provided by (used in) financing activities	—	—
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	1,239	(1,192)
Net increase (decrease) in cash, cash equivalents and restricted cash	(239,589)	139,511
Cash, cash equivalents and restricted cash at beginning of the period (see Note 2)	1,531,098	1,242,509
Cash, cash equivalents and restricted cash at end of the period (see Note 2)	$1,291,509	$1,382,020
Supplementary information		

Interest paid in cash	$3,867	$1,883
Income tax paid in cash	—	—

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

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GREENLIGHT CAPITAL RE, LTD.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

March 31, 2018

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

These unaudited condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2017. In the opinion of management, these unaudited condensed consolidated financial statements reflect all of the normal recurring adjustments considered necessary for a fair presentation of the Company’s financial position and results of operations as of the dates and for the periods presented.

The results for the three months ended March 31, 2018 are not necessarily indicative of the results expected for the full calendar year.

Reclassifications

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

Effective from the year ended December 31, 2017, the Company presented the redeemable non-controlling interest in the related party joint venture in the mezzanine section on the Company’s consolidated balance sheet in accordance with the SEC guidance noted above. The comparative condensed consolidated statement of shareholders' equity for the three months ended March 31, 2017 has been reclassified to conform to the current period presentation of the redeemable non-controlling interest in the related party joint venture. The reclassification had no impact on shareholders' equity attributable to shareholders or retained earnings. In addition, this change did not impact the condensed consolidated statements of income, earnings per share or condensed consolidated statement of cash flows. See Note 8 for additional information regarding the non-controlling interests in the related party joint venture.

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2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Restricted Cash and Cash Equivalents

The Company is required to maintain certain cash in segregated accounts with prime brokers and derivative counterparties. The amount of restricted cash held by prime brokers is primarily used to support the liability created from securities sold, not yet purchased and derivatives. Additionally, restricted cash and cash equivalent balances are held to collateralize regulatory trusts and letters of credit issued to cedents (see Notes 4 and 9). The amount of cash encumbered varies depending on the market value of the securities sold, not yet purchased, and the collateral required by the cedents in the form of trust accounts and letters of credit. In addition, derivative counterparties require cash collateral to support the current value of any amounts that may be due to the counterparty based on the value of the underlying financial instrument.

The following table reconciles the cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets to the total presented in the condensed consolidated statements of cash flows:

	March 31, 2018	December 31, 2017
	($ in thousands)	
Cash and cash equivalents	$37,454	$ 27,285
Restricted cash and cash equivalents	1,254,055	1,503,813
Total cash, cash equivalents and restricted cash presented in the condensed consolidated statements of cash flows	$1,291,509	$ 1,531,098

Premium Revenue Recognition

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

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

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

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

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

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

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

Reinsurance Premiums Ceded

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

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

Deferred Acquisition Costs

Policy acquisition costs, such as commission and brokerage costs, relate directly to, and vary with, the writing of reinsurance contracts. Acquisition costs relating solely to bound contracts are deferred subject to ultimate recoverability and are amortized over the related contract term. The Company evaluates the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment income is greater than the expected future claims and expenses. If a loss is probable on the unexpired portion of policies in force, a premium deficiency loss is recognized. At March 31, 2018 and December 31, 2017, the deferred acquisition costs were considered fully recoverable and no premium deficiency loss was recorded.

Acquisition costs also include profit commissions which are expensed when incurred. Profit commissions are calculated and accrued based on the expected loss experience for contracts and recorded when the current loss estimate indicates that a profit commission is probable under the contract terms. As of March 31, 2018, $19.3 million (December 31, 2017: $11.9 million) of profit commission reserves were included in reinsurance balances payable on the condensed consolidated balance sheets. For the three months ended March 31, 2018, $8.0 million (2017: $2.7 million) of net profit commission expense was included in acquisition costs in the condensed consolidated statements of income.

Funds Withheld

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

Loss and Loss Adjustment Expense Reserves and Recoverable

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

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

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

Notes Receivable

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

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

At March 31, 2018, $12.9 million of notes receivable (net of any valuation allowance) were on non-accrual status (December 31, 2017: $14.4 million) and any payments received were applied to reduce the recorded value of the notes.

At March 31, 2018 and December 31, 2017, $0.03 million and $0.1 million, respectively, of accrued interest was included in the notes receivable balance. Based on management’s assessment, the recorded values of the notes receivable, net of valuation allowance, at March 31, 2018 and December 31, 2017, were expected to be fully collectible.

Deposit Assets and Liabilities

In accordance with U.S. GAAP, deposit accounting is used in the event that a reinsurance contract does not transfer sufficient insurance risk. The deposit method of accounting requires an asset or liability to be recognized based on the consideration paid or received. The deposit asset or liability balance is subsequently adjusted using the interest method with a corresponding income or expense recorded in the condensed consolidated statements of income as other income or expense. The Company’s deposit assets and liabilities are recorded in the condensed consolidated balance sheets under reinsurance balances receivable and reinsurance balances payable, respectively. At March 31, 2018, deposit assets and deposit liabilities were $11.7 million and $36.9 million, respectively, (December 31, 2017: $19.4 million and $28.1 million, respectively). For the three months ended March 31, 2018, interest expense and interest income on deposit accounted contracts were $0.1 million and $0.2 million, respectively. For the three months ended March 31, 2017, there were no material interest expense or interest income on deposit accounted contracts.

Financial Instruments

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

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

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

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

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

Derivative Financial Instruments

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

Financial Contracts

The Company enters into financial contracts with counterparties as part of its investment strategy. Financial contracts, which include total return swaps, credit default swaps ("CDS"), futures, options, currency forwards and other derivative instruments, are recorded at their fair value with any unrealized gains and losses included in net investment income (loss) in the condensed consolidated statements of income. Financial contracts receivable represents derivative contracts whereby, based upon the contract's current fair value, the Company will be entitled to receive payments upon settlement of the contract. Financial contracts payable represents derivative contracts whereby, based upon each contract's current fair value, the Company will be obligated to make payments upon settlement of the contract.

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

Financial contracts may also include exchange traded futures or options contracts that are based on the movement of a particular index, equity security, commodity, currency or interest rate. Where such contracts are traded in an active market, the Company’s obligations or rights on these contracts are recorded at fair value based on the observable quoted prices of the same or similar financial contracts in an active market (Level 1) or on broker quotes which reflect market information based on

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actual transactions (Level 2). Amounts invested in exchange traded options and over the counter (“OTC”) options are recorded either as an asset or liability at inception. Subsequent to initial recognition, unexpired exchange traded option contracts are recorded at fair value based on quoted prices in active markets (Level 1). For OTC options or exchange traded options where a quoted price in an active market is not available, fair values are derived based upon observable inputs (Level 2) such as multiple quotes from brokers and market makers, which are considered to be binding.

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

Share-Based Compensation

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

U.S. GAAP requires the Company to recognize share-based compensation transactions using the fair value at the grant date of the award. The Company measures compensation for restricted shares and restricted stock units (“RSUs”) based on the price of the Company’s common shares at the grant date. For restricted shares and RSUs with both service and performance vesting conditions, the expense is recognized based on management’s estimate of the probability of the performance conditions being achieved based on historical results and expectations of future results. If the performance conditions is expected to be met, the expense is attributed to the period for which the requisite service has been rendered. For restricted shares and RSUs with only service vesting conditions, the expense is recognized on a straight line basis over the vesting period, net of any estimated or expected forfeitures.

The forfeiture rate is estimated based on the Company’s historical actual forfeitures relating to restricted shares and RSUs granted to employees. The forfeiture rate is reviewed annually and adjusted as necessary. No forfeiture rate is used for restricted shares granted to directors which vest over a twelve-month period.

Determining the fair value of share purchase options at the grant date requires significant estimation and judgment. The Company uses an option-pricing model (Black-Scholes option pricing model) to assist in the calculation of fair value for share purchase options. The model requires estimation of various inputs such as estimated term, forfeiture and dividend rates and expected volatility. In determining the grant date fair value, the Company uses the full life of the options, ten years, as the estimated term of the options, and has assumed no forfeitures and no dividends paid during the life of the options. The estimate of expected volatility is based on the daily historical trading data of the Company’s Class A ordinary shares from the date that these shares commenced trading (May 24, 2007) to the grant date.

For share purchase options issued under the employee stock incentive plan, the compensation cost is calculated and expensed over the vesting periods on a graded vesting basis (see Note 7).

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

Foreign Exchange

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

Comprehensive Income (Loss)

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

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Earnings (Loss) Per Share

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

	Three months ended March 31	
	2018	2017
Weighted average shares outstanding - basic	37,087,169	37,341,338
Effect of dilutive employee and director share-based awards	—	35,311
Weighted average shares outstanding - diluted	37,087,169	37,376,649
Anti-dilutive stock options outstanding	1,015,627	335,991
Participating securities excluded from calculation of loss per share	460,155	—

Taxation

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

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

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

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

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). The new guidance is intended to improve the recognition and measurement of financial instruments. ASU 2016-01, among other things, requires equity investments to be measured at fair value with changes in fair value recognized in net income or loss, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset. ASU 2016-01 affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted ASU 2016-01 during the first quarter of fiscal year 2018 and the adoption of this guidance did not have any significant impact on the Company’s net income or loss or retained earnings. since the Company’s investments are classified as “trading” and the unrealized gains and losses are recognized in net income or loss. The Company has implemented the new disclosures required under ASU 2016-01 commencing from the first quarter of 2018.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement

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date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for any organization in any interim or annual period. The Company currently has two operating leases for its office spaces as disclosed in Note 9 of the condensed consolidated financial statements which will be recognized as right-of-use asset upon adoption of ASU 2016-02. The Company is in the process of evaluating the impact of adopting ASU 2016-02 on the Company's consolidated financial statements and anticipates implementing ASU 2016-02 during the first quarter of fiscal year 2019.

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

In November 2016, the FASB issued ASU 2016-18, "Statements of Cash Flows - Restricted Cash (Topic 230)" ("ASU 2016-18"). ASU 2016-18 requires restricted cash and cash equivalents to be included with cash and cash equivalents in the statement of cash flows and disclose the nature of the restrictions on cash and cash equivalents. ASU 2016-18 is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption was permitted. The Company adopted ASU 2016-18 during the first quarter of fiscal year 2018 and amended the presentation in the statement of cash flows to include the restricted cash and cash equivalents with cash and cash equivalents in the condensed consolidated statements of cash flows and retrospectively reclassified comparative periods presented. The adoption had no impact on the Company's net income or loss or retained earnings.

The FASB has issued ASU No. 2014-09, "Revenue from Contracts with Customers", and related amendments, ASU 2015-14, ASU 2016-10, ASU 2016-12, ASU 2016-20, ASU 2017-05 and ASU 2017-13, (collectively, "Topic 606"). Topic 606 creates a new comprehensive revenue recognition standard that will serve as a single source of revenue guidance for all companies that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of non-financial assets, unless those contracts are within the scope of other standards, such as insurance contracts. Topic 606 becomes effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted Topic 606 during the first quarter of the fiscal year 2018 and since all of the Company's revenues relate to reinsurance contracts and investment income, the adoption of Topic 606 did not have a material impact on the Company's revenues and related disclosures.

3. FINANCIAL INSTRUMENTS

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

Fair Value Hierarchy

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

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The following table presents the Company’s investments, categorized by the level of the fair value hierarchy as of March 31, 2018:

Description	Fair value measurements as of March 31, 2018 Quoted prices in active markets (Level 1) ($ in thousands)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Debt instruments	$—	$18,465	$ 885	$19,350
Listed equity securities	943,121	12,134	—	955,255
Commodities	38,382	—	—	38,382
Private and unlisted equity securities	—	—	6,135	6,135
	$981,503	$30,599	$ 7,020	$1,019,122
Unlisted equity funds measured at net asset value [1]				25,610
Total investments				$1,044,732
Financial contracts receivable	$1,074	$53,057	$ —	$54,131
Liabilities:				
Listed equity securities, sold not yet purchased	$(567,950)	$—	$ —	$(567,950)
Debt instruments, sold not yet purchased	—	(108,988)	—	(108,988)
Total securities sold, not yet purchased	$(567,950)	$(108,988)	$ —	$(676,938)
Financial contracts payable	$—	$(15,397)	$ —	$(15,397)

[1] Investments measured at fair value using the net asset value practical expedient have not been classified in the fair value hierarchy. The fair value amounts are presented in the above table to facilitate reconciliation to the condensed consolidated balance sheets.

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

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

[1] Investments measured at fair value using the net asset value practical expedient have not been classified in the fair value hierarchy. The fair value amounts are presented in the above table to facilitate reconciliation to the condensed consolidated balance sheets.

The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3) for the three months ended March 31, 2018:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three months ended March 31, 2018 Assets Debt instruments	Private and unlisted equity securities	Total
	($ in thousands)		
Beginning balance	$880	$ 6,108	$6,988
Purchases	—	—	—
Sales	—	—	—
Issuances	—	—	—

Settlements	—	—	—
Total realized and unrealized gains (losses) and amortization included in earnings, net	5	27	32
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Ending balance	$885	$ 6,135	$7,020

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There were no transfers between Level 1, Level 2 or Level 3 during the three months ended March 31, 2018.

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three months ended March 31, 2017 Assets		
	Debt instruments	Private and unlisted equity securities	Total
	($ in thousands)		
Beginning balance	$654	$ 6,109	$6,763
Purchases	—	1,750	1,750
Sales	—	—	—
Issuances	—	—	—
Settlements	—	—	—
Total realized and unrealized gains (losses) and amortization included in earnings, net	50	(15)	35
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	(1,768)	(1,768)
Ending balance	$704	$ 6,076	$6,780

During the three months ended March 31, 2017, 1.8 million of the private equity securities were transferred from Level 3 to Level 2 as these securities commenced trading on a listed exchange. However, due to lock-up period restrictions on those securities, they were classified as Level 2 upon transfer until the lock-up period expires. As of March 31, 2017, the fair value of these securities was based on the last traded price on an active market, adjusted for an estimated discount due to the lock-up restriction. There were no other transfers between Level 1, Level 2 or Level 3 during the three months ended March 31, 2017.

As of March 31, 2018, the Company held investments in unlisted equity funds of $25.6 million (December 31, 2017: $24.5 million) with fair values measured using the unadjusted net asset values and performance estimates as reported by the managers of these funds as a practical expedient. Some of these net asset values were reported from periods prior to March 31, 2018. The unlisted equity funds have varying lock-up periods and, as of March 31, 2018, all of the funds had redemption restrictions. The redemption restrictions have been in place since inception of the investments. One of the unlisted equity funds may be redeemed after December 31, 2018 while the redemption restrictions for the other funds are not expected to lapse in the near future. As of March 31, 2018, the Company had $7.1 million (December 31, 2017: $6.5 million) of unfunded commitments relating to unlisted equity funds whose fair values are determined based on unadjusted net asset values reported by the managers of these funds. These commitments are included in the amounts presented in the schedule of commitments and contingencies in Note 9 of these condensed consolidated financial statements.

For the three months ended March 31, 2018 and 2017, there were no net realized gains or losses included in net investment loss in the condensed consolidated statements of income relating to Level 3 securities.

For Level 3 securities still held as of the reporting date, the change in net unrealized gains for the three months ended March 31, 2018 of $0.03 million (December 31, 2017: net unrealized gains $0.2 million), were included in net investment income (loss) in the condensed consolidated statements of income.

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Investments

Debt instruments, trading

At March 31, 2018, the following investments were included in debt instruments:

	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Corporate debt – U.S.	$3,437	$ —	$ (2,464)	$973
Corporate debt – Non U.S.	2,109	—	(2,082)	27
Municipal debt – U.S.	10,397	7,953	—	18,350
Total debt instruments	$15,943	$ 7,953	$ (4,546)	$19,350

At December 31, 2017, the following investments were included in debt instruments:

	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Corporate debt – U.S.	$8,508	$ —	$ (7,186)	$1,322
Corporate debt – Non U.S.	2,109	—	(2,057)	52
Municipal debt – U.S.	5,831	—	(25)	5,806
Total debt instruments	$16,448	$ —	$ (9,268)	$7,180

The maturity distribution for debt instruments held at March 31, 2018 and December 31, 2017 was as follows:

	March 31, 2018		December 31, 2017	
	Cost/ amortized cost	Fair value	Cost/ amortized cost	Fair value
	($ in thousands)			
Within one year	$1,551	$243	$7,557	$441
From one to five years	1,143	236	—	—
From five to ten years	2,859	1,425	2,109	52
More than ten years	10,390	17,446	6,782	6,687
	$15,943	$19,350	$16,448	$7,180

Equity securities, trading

At March 31, 2018, the following long positions were included in equity securities, trading:

	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Equities – listed	$863,334	$ 126,207	$ (34,286)	$955,255
Total equity securities	$863,334	$ 126,207	$ (34,286)	$955,255

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At December 31, 2017, the following long positions were included in equity securities, trading:

	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Equities – listed	$1,014,426	$208,350	$(19,104)	$1,203,672
Total equity securities	$1,014,426	$208,350	$(19,104)	$1,203,672

Other Investments

“Other investments” include commodities and private securities and unlisted funds. As of March 31, 2018 and December 31, 2017, all commodities were comprised of gold bullion.

At March 31, 2018, the following securities were included in other investments:

	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Commodities	$29,493	$ 8,889	$ —	$38,382
Private and unlisted equity funds	25,374	6,371	—	31,745
	$54,867	$ 15,260	$ —	$70,127

At December 31, 2017, the following securities were included in other investments:

	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Commodities	$101,184	$ 20,318	$ —	$121,502
Private and unlisted equity funds	25,316	5,314	—	30,630
	$126,500	$ 25,632	$ —	$152,132

Private and unlisted equity funds include private equity securities that did not have readily determinable fair values. At March 31, 2018 the carrying value of the private equity securities was $4.0 million (December 31, 2017: $3.9 million). The carrying values of the private equity securities are determined based on the original cost and any subsequent changes in the valuation based on periodic third party valuations or recent observable transactions of those securities. There were no meaningful upward or downward adjustments to the carrying values of the private equity securities for the three months ended March 31, 2018.

Investments in Securities Sold, Not Yet Purchased

Securities sold, not yet purchased, are securities that the Company has sold, but does not own, in anticipation of a decline in the market value of the security. The Company’s risk is that the value of the security will increase rather than decline. Consequently, the settlement amount of the liability for securities sold, not yet purchased, may exceed the amount recorded in the condensed consolidated balance sheet as the Company is obligated to purchase the securities sold, not yet purchased, in the market at prevailing prices to settle its obligations. To establish a position in a security sold, not yet purchased, the Company needs to borrow the security for delivery to the buyer. On each day the transaction is open, the liability for the obligation to replace the borrowed security is marked-to-market and an unrealized gain or loss is recorded. At the time the transaction is closed, the Company realizes a gain or loss equal to the difference between the price at which the security was sold and the cost of replacing the borrowed security. While the transaction is open, the Company will also incur an expense for any dividends or interest which will be paid to the lender of the securities.

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At March 31, 2018, the following securities were included in investments in securities sold, not yet purchased:

	Proceeds	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Corporate debt – U.S.	$(3,086)	$ —	$(7)	$(3,093)
Equities – listed	(470,844)	$ 16,131	(108,062)	(562,775)
Exchange traded funds	(5,872)	696	—	(5,176)
Sovereign debt – Non U.S.	(96,230)	—	(9,664)	(105,894)
	$(576,032)	$ 16,827	$(117,733)	$(676,938)

At December 31, 2017, the following securities were included in investments in securities sold, not yet purchased:

	Proceeds	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Corporate debt – U.S.	$—	$ —	$—	$—
Equities – listed	(643,148)	17,541	(187,045)	(812,652)
Exchange traded funds	—	—	—	—
Sovereign debt – Non U.S.	(96,231)	—	(3,914)	(100,145)
	$(739,379)	$ 17,541	$(190,959)	$(912,797)

Financial Contracts

As of March 31, 2018 and December 31, 2017, the Company had entered into total return equity swaps, interest rate swaps, commodity swaps, options, warrants, rights, futures and forward contracts with various financial institutions to meet certain investment objectives. Under the terms of each of these financial contracts, the Company is either entitled to receive or is obligated to make payments, which are based on the product of a formula contained within each contract that includes the change in the fair value of the underlying or reference security.

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At March 31, 2018, the fair values of financial contracts outstanding were as follows:

Financial Contracts	Listing currency [1]	Notional amount of underlying instruments	Fair value of net assets (obligations) on financial contracts
		($ in thousands)	
Financial contracts receivable			
Futures	USD	84,852	$ 1,074
Interest rate options	USD	1,104,000	923
Interest rate swaps	JPY	22,565	148
Put options	USD	112,568	47,301
Total return swaps – equities	EUR/KRW/RON/USD	93,723	4,685
Warrants and rights on listed equities	USD	2	—
Total financial contracts receivable, at fair value			$ 54,131
Financial contracts payable			
Call options	USD	470	$ (112)
Commodity Swaps	USD	19,487	(141)
Forwards	KRW	63,293	(192)
Put options	USD	29,278	(13,069)
Total return swaps – equities	EUR/USD	33,311	(1,883)
Total financial contracts payable, at fair value			$ (15,397)

[1] USD = US Dollar; EUR = Euro; JPY = Japanese Yen; KRW = Korean Won; RON = Romanian New Leu.

At December 31, 2017, the fair values of financial contracts outstanding were as follows:

Financial Contracts	Listing currency [1]	Notional amount of underlying instruments	Fair value of net assets (obligations) on financial contracts
		($ in thousands)	
Financial contracts receivable			
Call options	USD	2,656	$ 91
Commodity Swaps	USD	17,833	2,142
Forwards	KRW	41,379	801
Futures	USD	5,874	12
Interest rate swaps	JPY	21,269	479
Put options [2]	USD	155	1
Total return swaps – equities	EUR/GBP/USD	34,965	9,357
Warrants and rights on listed equities	EUR/USD	29	10
Total financial contracts receivable, at fair value			$ 12,893
Financial contracts payable			
Commodity Swaps	USD	26,795	$ (353)
Put options	USD	130	(14)
Total return swaps – equities	EUR/GBP/KRW/RON/USD	60,663	(21,855)
Total financial contracts payable, at fair value			$ (22,222)

[1] USD = US Dollar; EUR = Euro; GBP = British Pound; JPY = Japanese Yen; KRW = Korean Won; RON = Romanian New Leu.

[2] Includes options on the Chinese Yuan, denominated in U.S. dollars.

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Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer, a specified underlying security at a specified price on or before a specified date. The Company enters into option contracts to meet certain investment objectives. For exchange traded option contracts, the exchange acts as the counterparty to specific transactions and therefore bears the risk of delivery to and from counterparties of specific positions.

As of March 31, 2018, the Company held $47.3 million OTC put options (long) (December 31, 2017: nil) and $13.0 million OTC put options (short) (December 31, 2017: nil).

During the three months ended March 31, 2018 and 2017, the Company reported gains and losses on derivatives as follows:

Derivatives not designated as hedging instruments	Location of gains and losses on derivatives recognized in income	Gain (loss) on derivatives recognized in income	
		Three months ended March 31	
		2018	2017
		($ in thousands)	
Forwards	Net investment income (loss)	$(123)	$623
Futures	Net investment income (loss)	(1,949)	(513)
Interest rate options	Net investment income (loss)	(637)	—
Interest rate swaps	Net investment income (loss)	(331)	105
Options, warrants, and rights	Net investment income (loss)	1,087	(7,528)
Commodity swaps	Net investment income (loss)		