RENAISSANCERE HOLDINGS LTD
Form 10-Q
August 02, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended June 30, 2006

OR

[ ] TRANSITION REPORT PUSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 34-0-26512

RENAISSANCERE HOLDINGS LTD.

(Exact name of registrant as specified in its charter)

Bermuda	98-014-1974
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

Renaissance House, 8-20 East Broadway, Pembroke HM 19 Bermuda

(Address of principal executive offices)

(441) 295-4513

(Registrant's telephone number, including area code)

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Large accelerated filer (X), Accelerated filer ( ), Non-accelerated filer ( ).

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

The number of outstanding shares of RenaissanceRe Holdings Ltd.'s common shares, par value US $1.00 per share, as of July 21, 2006 was 72,031,809.

Total number of pages in this report: 60

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RenaissanceRe Holdings Ltd.

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Part I — FINANCIAL INFORMATION

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PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

RenaissanceRe Holdings Ltd. and Subsidiaries
Consolidated Balance Sheets
(in thousands of United States Dollars)

	At	
	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)
Assets		
Fixed maturity investments available for sale, at fair value (Amortized cost $3,067,464 and $2,864,402 at June 30, 2006 and December 31, 2005, respectively)	$ 3,079,855	$ 2,872,294
Short term investments, at cost	1,911,693	1,653,618
Other investments, at fair value	526,844	586,467
Investments in other ventures, under equity method	186,979	178,774
Total investments	5,705,371	5,291,153
Cash and cash equivalents	187,340	174,001
Premiums receivable	857,687	363,105
Ceded reinsurance balances	241,315	57,134
Losses recoverable	464,556	673,190
Accrued investment income	37,639	25,808
Deferred acquisition costs	158,600	107,951
Other assets	86,121	178,919
Total assets	$ 7,738,629	$ 6,871,261
Liabilities, Minority Interest and Shareholders' Equity		
Liabilities		
Reserve for claims and claim expenses	$ 2,347,525	$ 2,614,551
Reserve for unearned premiums	1,113,391	501,744
Debt	485,000	500,000
Subordinated obligation to capital trust	103,093	103,093
Reinsurance balances payable	477,477	292,307
Other liabilities	118,191	142,815
Total liabilities	4,644,677	4,154,510
Minority Interest – DaVinciRe	555,433	462,911
Shareholders' Equity		
Preference shares	500,000	500,000
Common shares and additional paid-in capital	356,462	351,285
Accumulated other comprehensive income	4,993	4,760
Retained earnings	1,677,064	1,397,795
Total shareholders' equity	2,538,519	2,253,840
Total liabilities, minority interest, and shareholders' equity	$ 7,738,629	$ 6,871,261

The accompanying notes are an integral part of these financial statements.

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RenaissanceRe Holdings Ltd. and Subsidiaries
Consolidated Statements of Operations
For the three and six months ended June 30, 2006 and 2005
(in thousands of United States Dollars, except per share amounts)
(Unaudited)

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Revenues				
Gross premiums written	$ 742,551	$ 443,483	$ 1,490,943	$ 1,137,816
Net premiums written	$ 512,244	$ 387,889	$ 1,210,079	$ 1,003,682
Increase in unearned premiums	(81,303)	(49,136)	(427,466)	(363,428)
Net premiums earned	430,941	338,753	782,613	640,254
Net investment income	74,012	45,769	154,446	96,984
Net foreign exchange (losses) gains	(2,441)	7,134	582	7,848
Equity in earnings of other ventures	9,221	7,798	15,773	15,365
Other (loss) income	(84)	3,205	(1,763)	(310)
Net realized (losses) gains on investments	(24,348)	1,583	(41,104)	(8,606)
Total revenues	487,301	404,242	910,547	751,535
Expenses				
Net claims and claim expenses incurred	207,336	108,799	306,514	310,447
Acquisition expenses	74,597	45,574	143,411	97,082
Operational expenses	29,056	23,377	49,987	42,220
Corporate expenses	5,571	8,694	11,310	20,033
Interest expense	10,370	6,967	19,671	13,572
Total expenses	326,930	193,411	530,893	483,354
Income before minority interest and taxes	160,371	210,831	379,654	268,181
Minority interest – DaVinciRe	21,207	30,283	52,664	34,667
Income before taxes	139,164	180,548	326,990	233,514
Income tax expense	(94)	—	(277)	—
Net income	139,070	180,548	326,713	233,514
Dividends on preference shares	8,662	8,566	17,325	17,229
Net income available to common shareholders	$ 130,408	$ 171,982	$ 309,388	$ 216,285
Net income available to common shareholders per Common Share – basic	$ 1.84	$ 2.44	$ 4.36	$ 3.07
Net income available to common shareholders per Common Share – diluted	$ 1.81	$ 2.39	$ 4.31	$ 3.00
Dividends declared per common share	$ 0.21	$ 0.20	$ 0.42	$ 0.40

The accompanying notes are an integral part of these financial statements.

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RenaissanceRe Holdings Ltd. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the six months ended June 30, 2006 and 2005
(in thousands of United States Dollars)
(Unaudited)

	Six months ended June 30, 2006	Six months ended June 30, 2005
Preference shares	$ 500,000	$ 500,000
Common stock and additional paid-in capital		
Balance – January 1	351,285	328,896
Exercise of options and issuance of restricted stock awards	5,177	8,779
Balance – June 30	356,462	337,675
Accumulated other comprehensive income		
Balance – January 1	4,760	78,960
Net unrealized gains (losses) on securities, net of adjustment (see disclosure below)	233	(17,599)
Balance – June 30	4,993	61,361
Retained earnings		
Balance – January 1	1,397,795	1,736,186
Net income	326,713	233,514
Dividends on Common Shares	(30,119)	(28,547)
Dividends on Preference Shares	(17,325)	(17,229)
Balance – June 30	1,677,064	1,923,924
Total Shareholders' Equity	$ 2,538,519	$ 2,822,960
Comprehensive income		
Net income	$ 326,713	$ 233,514
Other comprehensive gain (loss)	233	(17,599)
Comprehensive income	$ 326,946	$ 215,915
Disclosure regarding net unrealized gains (losses)		
Net unrealized holding losses arising during period	$ (40,871)	$ (26,205)
Net realized losses included in net income	41,104	8,606
Change in net unrealized gains (losses) on securities	$ 233	$ (17,599)

The accompanying notes are an integral part of these financial statements.

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RenaissanceRe Holdings Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the six months ended June 30, 2006 and 2005
(in thousands of United States Dollars)
(Unaudited)

	Six months ended	
	June 30, 2006	June 30, 2005
Cash flows provided by operating activities		
Net income	$ 326,713	$ 233,514
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization and depreciation	(3,963)	5,575
Net realized investment losses	41,104	8,606
Equity in undistributed earnings of other ventures	(3,307)	1,875
Net unrealized gains included in investment income	(25,544)	(9,435)
Net unrealized losses included in other loss	5,527	2,090
Minority interest in undistributed net income of DaVinciRe	52,664	34,667
Change in:		
Premiums receivable	(494,582)	(345,880)
Ceded reinsurance balances	(184,181)	(34,483)
Deferred acquisition costs	(50,649)	(48,999)
Reserve for claims and claim expenses, net	(58,392)	1,815
Reserve for unearned premiums	611,647	397,912
Reinsurance balances payable	185,170	138,323
Other	(18,753)	39,815
Net cash provided by operating activities	383,454	425,395
Cash flows used in investing activities		
Proceeds from sales and maturities of investments available for sale	2,813,652	13,353,812
Purchases of investments available for sale	(2,979,108)	(13,379,965)
Net purchases of short term investments	(258,075)	(79,064)
Net sales (purchases) of other investments	85,167	(144,174)
Net purchases of investments in other ventures	(7,500)	(10,000)
Net cash used in investing activities	(345,864)	(259,391)
Cash flows used in financing activities		
Dividends paid – common shares	(30,119)	(28,547)
Dividends paid – preference shares	(17,325)	(17,229)
Net increase in minority interest	38,193	—
Net repayment of debt	(15,000)	—
Net cash used in financing activities	(24,251)	(45,776)
Net increase in cash and cash equivalents	13,339	120,228
Cash and cash equivalents, beginning of period	174,001	66,740
Cash and cash equivalents, end of period	$ 187,340	$ 186,968

The accompanying notes are an integral part of these financial statements.

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RenaissanceRe Holdings Ltd. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Expressed in U.S. Dollars)
(Unaudited)

1. The consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States (‘‘GAAP’’) for interim financial information and in conformity 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 GAAP for complete financial statements. In the opinion of management, these unaudited consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company's financial position and results of operations as at the end of and for the periods presented. All significant intercompany accounts and transactions have been eliminated from these statements. The preparation of unaudited consolidated financial statements in conformity with 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The major estimates reflected in the Company's consolidated financial statements include, but are not limited to, the reserve for claims and claim expenses, losses recoverable, including allowances for losses recoverable deemed uncollectible, estimates of written and earned premiums, and the fair value of other investments and financial instruments. This report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. RenaissanceRe Holdings Ltd. and Subsidiaries include the following principal entities:
   - RenaissanceRe Holdings Ltd. (‘‘RenaissanceRe’’ or the ‘‘Company’’), was formed under the laws of Bermuda on June 7, 1993. Through its subsidiaries, the Company provides reinsurance and insurance to a broad range of customers.
   - Renaissance Reinsurance Ltd. (‘‘Renaissance Reinsurance’’) is the Company's principal subsidiary and provides property catastrophe and specialty reinsurance coverages to insurers and reinsurers on a worldwide basis.
   - The Company also manages property catastrophe and specialty reinsurance business written on behalf of joint ventures, principally including Top Layer Reinsurance Ltd. (‘‘Top Layer Re’’) and Starbound Holdings Ltd. (‘‘Starbound’’), both recorded under the equity method of accounting, and DaVinci Reinsurance Ltd. (‘‘DaVinci’’). The Company owns a minority equity interest in, but controls a majority of the outstanding voting power of, DaVinci's parent, DaVinciRe Holdings Ltd. (‘‘DaVinciRe’’). The results of DaVinci and DaVinciRe are consolidated in the Company's financial statements. Minority interests represent the interests of external parties with respect to the net income and shareholders' equity of DaVinciRe. Renaissance Underwriting Managers Ltd., a wholly owned subsidiary, acts as exclusive underwriting manager for these joint ventures in return for fee-based income and profit participation.
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The Company's Individual Risk operations include direct insurance and quota share reinsurance written through the operating subsidiaries of Glencoe Group Holdings Ltd. (‘‘Glencoe Group’’). These operating subsidiaries principally include Stonington Insurance Company (‘‘Stonington’’), which writes business on an admitted basis, and Glencoe Insurance Ltd. (‘‘Glencoe’’) and Lantana Insurance Ltd. (‘‘Lantana’’), which write business on an excess and surplus lines basis, and also provide reinsurance coverage, principally through quota share contracts, which are analyzed on an individual risk basis.

Certain comparative information has been reclassified to conform to the current presentation. Because of the seasonality of the Company's business, the results of operations and cash flows for any interim period will not necessarily be indicative of the results of operations and cash flows for the full fiscal year or subsequent quarters.

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2. The Company purchases reinsurance and other protection to manage its risk portfolio and to reduce its exposure to large losses. The Company currently has in place contracts that provide for recovery of a portion of certain claims and claim expenses from reinsurers in excess of various retentions. The Company remains liable to the extent that any third-party reinsurer or other obligor fails to meet its obligations. The earned reinsurance premiums ceded were $96.7 million and $99.7 million for the six months ended June 30, 2006 and 2005, respectively. In addition to loss recoveries, certain of the Company's ceded reinsurance contracts provide for recoveries of additional premiums, reinstatement premiums and for lost no-claims bonuses, which are incurred when losses are ceded to other reinsurance contracts. Total reinsurance recoveries netted against claims and claim expenses incurred for the six months ended June 30, 2006 were $12.5 million compared to $12.9 million for the six months ended June 30, 2005.
3. Basic earnings per common share is based on weighted average common shares and excludes any dilutive effects of stock options and restricted stock. Diluted earnings per common share assumes the exercise of all dilutive stock options and restricted stock grants. The following tables set forth the computation of basic and diluted earnings per common share:

Three months ended June 30,	2006	2005
(in thousands of U.S. dollars, except share and per share data)		
Numerator:		
Net income available to common shareholders	$ 130,408	$ 171,982
Denominator:		
Denominator for basic income per common share –		
Weighted average common shares	71,048,845	70,585,079
Per common share equivalents of employee stock		
options and restricted shares	876,678	1,431,104
Denominator for diluted income per common share –		
Adjusted weighted average common shares and		
assumed conversions	71,925,523	72,016,183
Basic income per common share	$ 1.84	$ 2.44
Diluted income per common share	$ 1.81	$ 2.39

Six months ended June 30,	2006	2005
(in thousands of U.S. dollars, except share and per share data)		

Numerator:		
Net income available to common shareholders	$ 309,388	$ 216,285
Denominator:		
Denominator for basic income per common share – Weighted average common shares	70,991,781	70,471,604
Per common share equivalents of employee stock options and restricted shares	864,193	1,511,822
Denominator for diluted income per common share – Adjusted weighted average common shares and assumed conversions	71,855,974	71,983,426
Basic income per common share	$ 4.36	$ 3.07
Diluted income per common share	$ 4.31	$ 3.00

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4. The Board of Directors of RenaissanceRe declared, and RenaissanceRe paid, a dividend of $0.21 per share to shareholders of record on each of March 15 and June 15, 2006.

The Board of Directors has authorized a share repurchase program of $150 million. RenaissanceRe's decision to repurchase common shares will depend on, among other matters, the market price of the common shares and capital requirements of RenaissanceRe. The Company did not repurchase any shares under the share repurchase program during the six months ended June 30, 2006. See ‘‘Part II — Other Information — Item 2.’’

5. Effective January 1, 2006, the Company adopted FASB Statement No. 123 (revised 2004), Share-Based Payment (‘‘FAS 123(R)’’), using the modified prospective transition method. Under the modified prospective transition method, compensation cost recognized for the six months ending June 30, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested, as of January 1, 2006 based on the grant date fair value estimated in accordance with the original provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation (‘‘FAS 123’’) and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of FAS 123(R). The adoption of FAS 123(R) did not have a material impact on the Company.

Prior to adopting FAS 123(R), the Company accounted for stock-based compensation under the fair value recognition provisions of FAS 123 with effect from January 1, 2003 for all stock-based employee compensation granted, modified or settled after January 1, 2003 under the prospective method described in FASB Statement No. 148, Accounting for Stock-Based Compensation — Transition and Disclosure. Prior to January 1, 2003, the Company accounted for stock-based employee compensation under the recognition and measurement provisions of APB Opinion Number 25, Accounting for Stock Issued to Employees, and related interpretations.

Stock Compensation Plans

The Company has a stock incentive plan (the ‘‘2001 Stock Incentive Plan’’) under which all employees of the Company and its subsidiaries may be granted stock options and restricted stock awards. A stock option award under the Company's 2001 Stock Incentive Plan allows for the purchase of the Company's common shares at a price that is equal to the five day average closing price of the common shares immediately prior to the date of grant. Options to purchase common shares are granted periodically by the Board of Directors, generally vest over four years and expire ten years from the date of grant. Restricted common shares are granted periodically by the Board of Directors and generally vest ratably over a four or five year period. The Company has also established a Non-Employee Director

Stock Incentive Plan to issue stock options and shares of restricted stock to the Company's non-employee directors.

The Company's 2001 Stock Incentive Plan allows for the issuance of share-based awards, the issuance of restricted common shares, the issuance of reload options for shares tendered in connection with option exercises and a provision in the calculation of shares available for issuance thereunder that deems the number of shares tendered to or withheld by the Company in connection with certain option exercises to be so available.

In August 2004, the Company's shareholders approved the RenaissanceRe Holdings Ltd. 2004 Stock Option Incentive Plan (the ‘‘Premium Option Plan’’) under which 6,000,000 common shares were reserved for issuance upon the exercise of options granted under the Premium Option Plan. As described in the Company's Proxy Statement relating to the required shareholder vote, filed with the Securities and Exchange Commission (‘‘SEC’’) in July 2004, the Premium Option Plan provides for, among other things, mandatory premium pricing such that options can generally only be issued thereunder with a strike price at a minimum of 150% of the fair market value on the date of grant, minimum 4-year cliff vesting (subject to waiver by the compensation committee of the Board of Directors), and no discretionary repricing. The Premium Option Plan includes a dividend protection feature that reduces the strike price for extraordinary dividends and a change

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in control feature that reduces the strike price based on a pre-established formula in the event of a change in control. Grantees under the Premium Option Plan must satisfy performance criteria which are determined by the Company's Compensation Committee. Other terms are substantially similar to the 2001 Plan.

Valuation Assumptions

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average-assumptions:

	Stock Options			
	Three months ended June 30,		Six months ended June 30,	
	2006(1)	2005(1)	2006	2005
Volatility	N/A	N/A	24%	23%
Term (in years)	N/A	N/A	5	5
Dividend yield	N/A	N/A	2.0%	1.6%
Risk-free interest rate	N/A	N/A	4.6%	4.2%

(1)No stock options were issued during the three months ended June 30, 2006 and 2005

Expected Volatility: The expected volatility is estimated by the Company based on the Company's historical stock volatility.

Expected Term: The expected term is estimated by looking at historical experience of similar awards, giving consideration to the contractual terms of the award, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock option awards.

Expected Dividend Yield: The expected dividend yield is estimated by reviewing the most recent dividend declared by the Board of Directors.

Risk-Free Interest Rate: The risk free rate is estimated based on the yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the stock option grants.

The fair value of restricted shares is determined based on the market value of the Company's shares on the grant date.

Under the fair value recognition provisions of FAS 123(R), the estimated fair value of employee stock options and other share-based payments, net of estimated forfeitures, is amortized as an expense over the requisite service period. When estimating forfeitures, the Company considers its historical forfeitures as well as expectations about employee behavior. The Company currently uses an 8% forfeiture rate.

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Summary of Stock Compensation Activity:

The following is a summary of activity under the Company's existing stock compensation plans for the six months ended June 30, 2006:

2001 Stock Incentive and Non-Employee Director Stock Incentive Plans

	Weighted options outstanding	Weighted average exercise price	Fair value of options	Weighted average remaining contractual life	Aggregate intrinsic value	Range of exercise prices
Balance, December 31, 2005	3,151,180	$35.44				
Options granted	841,482	42.86	$10.33			$42.66 – $44.30
Options forfeited	(18,716)	51.02				
Options expired	(2,470)	53.96				
Options exercised	(1,800)	12.83			$ 60,696	
Balance, March 31, 2006	3,969,676	36.94		6.7	$32,176,311	$11.09 – $53.96
Total options exercisable at March 31, 2006	2,205,436	$31.85		4.6	$28,613,371	$11.98 – $52.64
Balance, March 31, 2006	3,969,676	$36.94				
Options granted	—	—				
Options forfeited	(71,201)	48.12				

Options expired	—	—				
Options exercised	(1,500)	39.07			$ 6,360	
Balance, June 30, 2006	3,896,975	36.74		6.4	$47,806,400	$11.09 – $53.96
Total options exercisable at June 30, 2006	2,259,565	$32.19		4.4	$37,911,496	$11.98 – $52.62

Premium Option Plan

	Weighted options outstanding	Weighted average exercise price	Fair value of options	Weighted average remaining contractual life	Aggregate intrinsic value	Range of exercise prices
Balance, December 31, 2005	5,174,000	$80.15				
Options granted	—	—				
Options forfeited	—	—				
Options expired	—	—				
Options exercised	—	—				
Balance, March 31, 2006	5,174,000	$80.15		8.5	$ —	$73.06 – $98.98
Total options exercisable at March 31, 2006	2,500,000	$86.61		8.4	$ —	$74.24 – $98.98
Balance, March 31, 2006	5,174,000	$80.15				
Options granted	—	—				
Options forfeited	(700,000)	—				
Options expired	—	—				
Options exercised	—	—				
Balance, June 30, 2006	4,474,000	$81.07		8.2	$ —	$73.06 – $98.98
Total options exercisable at June 30, 2006	2,500,000	$86.61		8.2	$ —	$74.24 – $98.99

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Restricted Stock

	Employee restricted stock		Non-employee director restricted stock		Total restricted stock	
	Number of shares	Weighted average grant-dated fair value	Number of shares	Weighted average grant-dated fair value	Number of shares	Weighted average grant-dated fair value
Nonvested at December 31, 2005	631,592	$ 44.90	27,523	$ 48.43	659,115	$ 45.05
Awards granted	349,806	42.80	22,420	44.60	372,226	42.91
Awards vested	(44,023)	42.20	(8,057)	43.08	(52,080)	42.34
Awards canceled/expired/forfeited	(7,644)	48.44	—	—	(7,644)	48.44
Nonvested at March 31, 2006	929,731	$ 43.78	41,886	$ 46.15	971,617	$ 43.88
Awards granted	1,334	$ 45.47	2,205	$ 45.34	3,539	45.39
Awards vested	(73,201)	42.43	(5,100)	45.72	(78,301)	42.64
Awards canceled/expired/forfeited	(21,128)	46.99	—	—	(21,128)	46.99
Nonvested at June 30, 2006	836,736	$ 43.83	38,991	$ 46.16	875,727	$ 43.93

Shares available for issuance under the Company's 2001 Stock Incentive Plan, Premium Option Plan and Non-Employee Director Stock Incentive Plan totaled 5.2 million at June 30, 2006. The total fair value of shares vested during the three and six months ended June 30, 2006 was $3.5 million and $5.4 million, respectively. There was no cash received from employees as a result of employee stock option and similar awards during the three and six months ended June 30, 2006. In connection with these exercises, there was no tax benefit realized by the Company due to the Company's tax status in Bermuda. The Company issues new shares upon the exercise of an option.

As of June 30, 2006, there was $26.7 million of total unrecognized compensation cost related to restricted shares and $19.5 million related to stock options expense which will be recognized during the next 1.96 years and 2.64 years, respectively.

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In accordance with the transitional disclosure provisions of FAS 148, the following table sets out the effect on the Company's net income and earnings per share for all reported periods had compensation cost been calculated based upon the fair value method recommended in FAS 123:

Three months ended June 30,	2006	2005
(in thousands of U.S. dollars, except per share data)		

Net income available to common shareholders, as reported	$ 130,408	$ 171,982
Add: stock based employee compensation cost included in determination of net income	5,053	5,120
Deduct: fair value compensation cost under FAS 123	(5,053)	(5,498)
Pro-forma net income available to common shareholders	$ 130,408	$ 171,604
Income per share		
Basic – as reported	$ 1.84	$ 2.44
Basic – pro-forma	$ 1.84	$ 2.43
Diluted – as reported	$ 1.81	$ 2.39
Diluted – pro-forma	$ 1.81	$ 2.38

Six months ended June 30,	2006	2005
(in thousands of U.S. dollars, except per share data)		
Net income attributable to common shareholders, as reported	$ 309,388	$ 216,285
Add: stock based employee compensation cost included in determination of net loss	6,146	10,190
Deduct: fair value compensation cost under FAS 123	(6,146)	(10,996)
Pro-forma net income available to common shareholders	$ 309,388	$ 215,479
Income per share		
Basic – as reported	$ 4.36	$ 3.07
Basic – pro-forma	$ 4.36	$ 3.06
Diluted – as reported	$ 4.31	$ 3.00
Diluted – pro-forma	$ 4.31	$ 2.99

6. We conduct our business through two reportable segments, Reinsurance and Individual Risk. Our Reinsurance segment provides reinsurance through our property catastrophe reinsurance and specialty reinsurance business units and through joint ventures and other activities managed by our Ventures unit. Only Ventures' business activities that appear in our consolidated underwriting results, such as DaVinci and certain reinsurance transactions, are included in our Reinsurance segment results. The results of Top Layer Re, Starbound, ChannelRe Holdings Ltd. (‘‘ChannelRe’’), Tower Hill Holdings Inc. (‘‘Tower Hill’’) and Platinum Underwriters Holdings Ltd. (‘‘Platinum’’) are included in the Other category of our segment results.

Our Individual Risk segment provides primary insurance and quota share reinsurance. The Company does not manage its assets by segment; accordingly, net investment income and total assets are not allocated to the individual segments.

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A summary of the significant components of our revenues and expenses for the three and six month periods ended June 30, 2006 and 2005 is as follows:

Three months ended June 30, 2006	Reinsurance	Individual Risk	Other	Total
(in thousands of U.S. dollars, except ratios)				
Gross premiums written (1)	$ 531,722	$ 210,829	$ —	$ 742,551

Net premiums written	$ 361,558	$ 150,686	—	$ 512,244
Net premiums earned	$ 278,061	$ 152,880	—	$ 430,941
Net claims and claim expenses incurred	97,945	109,391	—	207,336
Acquisition expenses	31,091	43,506	—	74,597
Operational expenses	19,763	9,293	—	29,056
Underwriting income (loss)	$ 129,262	$ (9,310)	—	119,952
Net investment income			74,012	74,012
Equity in earnings of other ventures			9,221	9,221
Other loss			(84)	(84)
Interest and preference share dividends			(19,032)	(19,032)
Minority interest – DaVinciRe			(21,207)	(21,207)
Other items, net			(8,106)	(8,106)
Net realized losses on investments			(24,348)	(24,348)
Net income available to common shareholders			$ 10,456	$ 130,408
Net claims and claim expenses incurred – current accident year	$ 100,776	$ 117,892		$ 218,668
Net claims and claim expenses incurred – prior years	(2,831)	(8,501)		(11,332)
Net claims and claim expenses incurred – total	$ 97,945	$ 109,391		$ 207,336
Net claims and claim expense ratio – accident year	36.2%	77.1%		50.7%
Net claims and claim expense ratio – calendar year	35.2%	71.6%		48.1%
Underwriting expense ratio	18.3%	34.5%		24.1%
Combined ratio	53.5%	106.1%		72.2%

(1)Reinsurance segment gross premiums written excludes $30.6 million of premiums assumed from the Individual Risk segment.

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Three months ended June 30, 2005 (in thousands of U.S. dollars, except ratios)	Reinsurance	Individual Risk	Other	Total
Gross premiums written (1)	$ 223,339	$ 220,144	$ —	$ 443,483
Net premiums written	$ 184,477	$ 203,412	—	$ 387,889
Net premiums earned	$ 206,651	$ 132,102	—	$ 338,753
Net claims and claim expenses incurred	26,117	82,682	—	108,799
Acquisition expenses	13,273	32,301	—	45,574
Operational expenses	17,384	5,993	—	23,377
Underwriting income	$ 149,877	$ 11,126	—	161,003
Net investment income			45,769	45,769
Equity in earnings of other ventures			7,798	7,798
Other income			3,205	3,205
Interest and preference share dividends			(15,533)	(15,533)
Minority interest – DaVinciRe			(30,283)	(30,283)
Other items, net			(1,560)	(1,560)
Net realized gains on investments			1,583	1,583
Net income available to common shareholders			$ 10,979	$ 171,982

Net claims and claim expenses incurred – current accident year	$ 91,845	$ 82,020		$ 173,865
Net claims and claim expenses incurred – prior years	(65,728)	662		(65,066)
Net claims and claim expenses incurred – total	$ 26,117	$ 82,682		$ 108,799
Net claims and claim expense ratio – accident year	44.4%	62.1%		51.3%
Net claims and claim expense ratio – calendar year	12.6%	62.6%		32.1%
Underwriting expense ratio	14.8%	29.0%		20.4%
Combined ratio	27.4%	91.6%		52.5%

(1) Reinsurance segment gross premiums written excludes $1.7 million of premiums assumed from the Individual Risk segment.

Six months ended June 30, 2006 (in thousands of U.S. dollars, except ratios)	Reinsurance	Individual Risk	Other	Total
Gross premiums written (1)	$ 1,109,390	$ 381,553	$ —	$ 1,490,943
Net premiums written	$ 910,015	$ 300,064	—	$ 1,210,079
Net premiums earned	$ 491,434	$ 291,179	—	$ 782,613
Net claims and claim expenses incurred	134,625	171,889	—	306,514
Acquisition expenses	59,597	83,814	—	143,411
Operational expenses	32,307	17,680	—	49,987
Underwriting income	$ 264,905	$ 17,796	—	282,701
Net investment income			154,446	154,446
Equity in earnings of other ventures			15,773	15,773
Other loss			(1,763)	(1,763)
Interest and preference share dividends			(36,996)	(36,996)
Minority interest – DaVinciRe			(52,664)	(52,664)
Other items, net			(11,005)	(11,005)
Net realized losses on investments			(41,104)	(41,104)
Net income available to common shareholders			$ 26,687	$ 309,388
Net claims and claim expenses incurred – current accident year	$ 176,489	$ 183,259		$ 359,748
Net claims and claim expenses incurred – prior years	(41,864)	(11,370)		(53,234)
Net claims and claim expenses incurred – total	$ 134,625	$ 171,889		$ 306,514
Net claims and claim expense ratio – accident year	35.9%	62.9%		46.0%
Net claims and claim expense ratio – calendar year	27.4%	59.0%		39.2%

Underwriting expense ratio	18.7%	34.9%		24.7%
Combined ratio	46.1%	93.9%		63.9%

(1)Reinsurance segment gross premiums written excludes $36.7 million of premiums assumed from the Individual Risk segment.

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Six months ended June 30, 2005 (in thousands of U.S. dollars, except ratios)	Reinsurance	Individual Risk	Other	Total
Gross premiums written (1)	$ 808,623	$ 329,193	$ —	$ 1,137,816
Net premiums written	$ 712,610	$ 291,072	—	$ 1,003,682
Net premiums earned	$ 407,021	$ 233,233	—	$ 640,254
Net claims and claim expenses incurred	168,061	142,386	—	310,447
Acquisition expenses	33,811	63,271	—	97,082
Operational expenses	31,611	10,609	—	42,220
Underwriting income	$ 173,538	$ 16,967	—	190,505
Net investment income			96,984	96,984
Equity in earnings of other ventures			15,365	15,365
Other loss			(310)	(310)
Interest and preference share dividends			(30,801)	(30,801)
Minority interest – DaVinciRe			(34,667)	(34,667)
Other items, net			(12,185)	(12,185)
Net realized losses on investments			(8,606)	(8,606)
Net income available to common shareholders			$ 25,780	$ 216,285
Net claims and claim expenses incurred – current accident year	$ 251,881	$ 141,222		$ 393,103
Net claims and claim expenses incurred – prior years	(83,820)	1,164		(82,656)
Net claims and claim expenses incurred – total	$ 168,061	$ 142,386		$ 310,447
Net claims and claim expense ratio – accident year	61.9%	60.5%		61.4%
Net claims and claim expense ratio – calendar year	41.3%	61.0%		48.5%
Underwriting expense ratio	16.1%	31.7%		21.8%
Combined ratio	57.4%	92.7%		70.3%

(1)Reinsurance segment gross premiums written excludes $13.2 million of premiums assumed from the Individual Risk segment.

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7. The Company received a subpoena from the SEC in February 2005, a subpoena from the Office of the Attorney General of the State of New York (the ‘‘NYAG’’) in March 2005, and a subpoena from the United States Attorney's Office for the Southern District of New York in June 2005, each of which relates to the industry-wide investigations into non-traditional, or loss mitigation, (re)insurance products. The subpoenas from the SEC and the United States Attorney's Office also relate to the Company's business practice review and to the Company's determination to restate its financial statements for the fiscal years ended December 31, 2003, 2002 and 2001. In addition, the Company understands that certain of its contractual counterparties may have been asked to provide or have provided documents and information with respect to contracts to which the Company is a party in the framework of the ongoing industry-wide investigations. In April 2005, the Company also received subpoenas from the SEC and the NYAG relating to its investment in ChannelRe.

In July 2005, James N. Stanard, the Company's then Chairman and Chief Executive Officer, received a Wells Notice from the staff of the SEC in connection with the SEC's investigation relating to the Company's restatement. In September 2005, the Company received a Wells Notice in connection with that investigation. The Wells Notices indicate that the staff intends to recommend that the SEC bring a civil enforcement action against the recipients alleging violations of federal securities laws and that the staff may seek permanent injunctive relief, civil penalties and disgorgement. The Company understands that Michael W. Cash, a former officer of the Company, also received a Wells Notice in connection with the SEC's investigation.

The Company has cooperated with the SEC, the NYAG, and the United States Attorney's Office as to these investigations. The SEC and the United States Attorney's Office have continued to request information from the Company in connection with their investigations. It is possible that additional investigations or proceedings may be commenced against the Company and/or its current or former senior executives in connection with these matters, which could be criminal or civil. The Company is unable to predict the ultimate outcome of these ongoing investigations or the impact these investigations may have on the Company's business, including as to the Company's senior management team. These investigations could result in injunctive relief or penalties, require remediation, or otherwise impact the Company and/or the Company's senior management team in a manner which may be adverse to the Company, perhaps materially so.

The Company has submitted an offer of settlement to the SEC in connection with the SEC's investigation relating to the Company's restatement. Pursuant to the offer of settlement, which the SEC staff has indicated it will recommend to the SEC Commissioners, the Company will consent, without admitting or denying any wrongdoing, to entry of a final judgment enjoining future violations of certain provisions of the federal securities laws and ordering the Company to pay disgorgement of $1 and a civil penalty of $15 million. The Company will also retain an independent consultant to review certain of the Company's internal controls, policies and procedures as well as the design and implementation of the review conducted by independent counsel reporting to the non-executive members of the Company's Board of Directors and procedures performed by the Company's auditors in connection with their audit of the Company's financial statements for the fiscal year ended December 31, 2004. The proposed settlement, which has the support of the SEC staff, remains subject to approval by the SEC Commissioners, and by the federal court in which the SEC's complaint against the Company will be filed. The amount of the monetary penalty discussed above has been previously provided for by the Company. The Company can give no assurances that the proposed settlement will receive the necessary approvals. If the proposed settlement is not approved, the Company could be subject to different or additional remedies, both monetary and non-monetary, which could adversely affect the Company's business or financial statements, perhaps materially. Disposition of the SEC's investigation relating to the Company's restatement would not dispose of other ongoing investigations, including that being conducted by United States

Attorney's Office for the Southern District of New York. The Company intends to continue to cooperate with the ongoing investigations.

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Beginning in July 2005, several putative class actions were filed in the United States District Court for the Southern District of New York in respect of the Company. In December 2005, these actions were consolidated and in February 2006, the plaintiffs filed a Consolidated Amended Complaint, purportedly on behalf of all persons who purchased and/or acquired the publicly traded securities of the Company between April 22, 2003 and July 25, 2005. The Consolidated Amended Complaint names as defendants, in addition to the Company, current and former officers of the Company (Messrs. Stanard, Riker, Lummis, Cash and Merritt) and alleges that the Company and the other named defendants violated the U.S. federal securities laws by making material misstatements and failing to state material facts about the Company's business and financial condition in, among other things, SEC filings and public statements. In June 2006, the defendants filed motions to dismiss the Consolidated Amended Complaint. The suit, which is at an early stage, seeks compensatory damages without specifying an amount. The proposed settlement with the SEC described above would not dispose of this private suit, which the Company intends to vigorously defend.

The Company's operating subsidiaries are subject to claims litigation involving disputed interpretations of policy coverages. Generally, the Company's primary insurance operations are subject to greater frequency and diversity of claims and claims-related litigation and, in some jurisdictions, may be subject to direct actions by allegedly-injured persons or entities seeking damages from policyholders. These lawsuits, involving claims on policies issued by the Company's subsidiaries which are typical to the insurance industry in general and in the normal course of business, are considered in the Company's loss and loss expense reserves which are discussed in the Company's loss reserves discussion. In addition to claims litigation, the Company and its subsidiaries are subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance policies. This category of business litigation may involve allegations of underwriting or claims-handling errors or misconduct, employment claims, regulatory activity or disputes arising from the Company's business ventures. While any such litigation or arbitration contains an element of uncertainty, the Company believes that any such normal course litigation or arbitration to which the Company is presently a party is not likely to have a material adverse effect on the Company's business or operations.

8. On May 31, 2006, the Company invested $7.5 million in Starbound, which represents a 5.9% equity ownership interest in Starbound. Starbound owns 100% of Starbound Reinsurance Ltd. (‘‘Starbound Re’’), a Class 3 Bermuda domiciled reinsurer. Starbound was capitalized on May 31, 2006 with $126.5 million of equity capital. The equity, net of capital raising costs, was contributed to Starbound Re. Starbound Re issued $184 million of debt on May 31, 2006. The Company wrote additional property catastrophe excess of loss reinsurance contracts incepting during the period from June 1, 2006 to July 1, 2006 and then ceded up to 80% of these contracts to Starbound Re in accordance with a fully-collateralized quota share agreement in return for an underwriting profit commission and an expense override. The Company manages the administration of Starbound for an annual fee. The Company's equity ownership interest in Starbound is accounted for under the equity method of accounting. During the period ended June 30, 2006, the Company ceded $83.6 million of premium and $9.2 million of acquisition expenses to Starbound Re. The Company had a net outstanding payable to Starbound and its subsidiary Starbound Re of $73.7 million at June 30, 2006.

On June 1, 2006, Timicuan Reinsurance Ltd. (‘‘Tim Re’’), a wholly owned subsidiary of the Company, sold $49.5 million of non-voting Class B shares to external investors to provide Tim Re with additional capacity to accept property catastrophe excess of loss reinsurance business. Tim Re is a Class 3 Bermuda domiciled reinsurer. The Company ceded a defined portfolio of property catastrophe excess of loss reinsurance contracts incepting June 1, 2006 to Tim Re under a fully-collateralized reinsurance contract in return for an underwriting profit commission. The Class B shareholders will participate in substantially all of the profits or losses of Tim Re while the Class B shares remain outstanding. The Class B shares indemnify Tim Re against losses relating to insurance risk and therefore these shares have been accounted for as prospective reinsurance under Statement of Financial Accounting Standards No. 113, Accounting and

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Reporting for Reinsurance of Short-Duration and Long-Duration Contracts (''FAS 113''). The sale of the Class B shares was considered a reconsideration event under FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities ''FIN 46(R).'' In accordance with the provisions of FIN 46(R), Tim Re is considered a variable interest entity (''VIE'') and the Company is considered the primary beneficiary. As a result, Tim Re is consolidated by the Company and all significant inter-company transactions have been eliminated. The Class B share capital has been invested by Tim Re in short term investments and is pledged as collateral to the Company in support of obligations arising under the reinsurance contract. Tim Re is required to repurchase the Class B shares subsequent to the end of the exposure period. The Company ceded $27.6 million of premium to Tim Re under the auto facultative retrocessional excess of loss reinsurance contract through June 30, 2006.

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

The following is a discussion and analysis of our results of operations for the three and six month periods ended June 30, 2006 and 2005. The following also includes a discussion of our financial condition at June 30, 2006. This discussion and analysis should be read in conjunction with the attached unaudited consolidated financial statements and notes thereto and the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005. This filing contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from the results described or implied by these forward-looking statements. We also direct readers to the Safe Harbor Disclosure included in this filing.

GENERAL

RenaissanceRe was established in 1993 to write property catastrophe reinsurance. By pioneering the use of sophisticated computer models to construct our portfolio, we believe we have become one of the world's largest and most successful catastrophe reinsurers. Recently, we have leveraged our expertise and have established additional franchises in other selected areas of insurance and reinsurance.

Since a substantial portion of the reinsurance and insurance we write provides protection from damages relating to natural and man-made catastrophes, our results depend to a large extent on the frequency and severity of such catastrophic events, and the coverages we offer to clients affected by these events. We are exposed to significant losses from these catastrophic events and other exposures that we cover which can cause significant volatility in our financial results.

Our revenues are principally derived from three sources: 1) net premiums earned from the reinsurance and insurance policies we sell; 2) net investment income and realized gains from the investment of our capital funds and the investment of the cash we receive on the policies which we sell; and 3) other income received from our joint ventures and various other items.

Our expenses primarily consist of: 1) net claims and claim expenses incurred on the policies of reinsurance and insurance we sell; 2) acquisition costs which typically represent a percentage of the premiums we write; 3) operating expenses which primarily consist of personnel expenses, rent and other operating expenses; 4) corporate expenses which include certain executive, legal and consulting expenses, costs for research and development, and other miscellaneous costs associated with operating as a publicly traded company; 5) minority interest, which represents the interest of external parties with respect to the net income of DaVinciRe; and 6) interest and dividend costs related to our debt, preference shares and subordinated obligation to our capital trust. We are also subject to taxes in certain jurisdictions in which we operate; however, since the majority of our income is currently earned in Bermuda, a non-taxable jurisdiction, the tax impact to our operations has historically been minimal. In the future we expect our relative tax expenses to increase.

The operating results, also known as the underwriting results, of an insurance or reinsurance company are discussed frequently by reference to its net claims and claim expense ratio, underwriting expense ratio, and combined ratio. The net claims and claim expense ratio is calculated by dividing net claims and claim expenses incurred by net premiums earned. The underwriting expense ratio is calculated by dividing underwriting expenses (acquisition expenses and operational expenses) by net premiums earned. The combined ratio is the sum of the net claims and claim expense ratio and the underwriting expense ratio. A combined ratio below 100% generally indicates profitable underwriting prior to the consideration of investment income. A combined ratio over 100% generally indicates unprofitable underwriting prior to the consideration of investment income. We also discuss our net claims and claim expense ratio on an accident year basis. This ratio is calculated by taking net claims and claim expenses, excluding development on net claims and claim expenses from events that took place in prior years, divided by net premiums earned.

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We conduct our business through two reportable segments, Reinsurance and Individual Risk. Those segments are more fully described as follows:

Reinsurance

Our Reinsurance segment has three main units:

1) Property catastrophe reinsurance, written for our own account and for DaVinci, our traditional core business. We believe our subsidiary Renaissance Reinsurance is one of the world's leading providers of this coverage, based on managed catastrophe gross premiums written. This coverage protects against large natural catastrophes, such as earthquakes, hurricanes and tsunamis, as well as claims arising from other natural and man-made catastrophes such as winter storms, freezes, floods, fires, wind storms, tornadoes and explosions. We offer this coverage to insurance companies and

other reinsurers primarily on an excess of loss basis. This means that we begin paying when our customers' claims from a catastrophe exceed a certain retained amount.

2) Specialty reinsurance, written for our own account and for DaVinci, covering certain targeted classes of business where we believe we have a sound basis for underwriting and pricing the risk that we assume; our portfolio in 2006 includes various classes of business, such as catastrophe exposed workers' compensation, surety, terrorism, medical malpractice and certain casualty lines. We believe that we are seen as a market leader in certain of these classes of business, such as catastrophe-exposed workers' compensation, surety and terrorism.
3) Through Ventures, we pursue joint ventures and other strategic relationships. Our three principal business activities in this area are: 1) catastrophe-oriented joint ventures which we manage, such as Top Layer Re, DaVinci and Starbound; 2) customized reinsurance transactions, such as offering participations in our catastrophe portfolio; and 3) investments in other market participants, such as our investments in ChannelRe and Platinum, and other activities which are directed at non-catastrophe classes of risk. Only business activities that appear in our consolidated underwriting results, such as DaVinci, Tim Re and certain reinsurance transactions, are included in our Reinsurance segment results; our share of the results of Top Layer Re, ChannelRe, Starbound, Tower Hill and Platinum are included in the Other category of our segment results.

Individual Risk

We define our Individual Risk segment to include underwriting that involves understanding the characteristics of the original underlying insurance policy. Our principal contracts include: 1) commercial and homeowners property coverages, including catastrophe-exposed products; 2) commercial liability coverages, including general, automobile, professional and various specialty products; 3) multi-peril crop insurance; and 4) reinsurance of other insurers on a quota share basis.

Our Individual Risk business is primarily produced through three distribution channels: 1) program managers — where we write primary insurance through specialized program managers, who produce business pursuant to agreed-upon underwriting guidelines and provide related back-office functions; 2) quota share reinsurance — where we write quota share reinsurance with primary insurers who, similar to our program managers, provide most of the back-office and support functions; and 3) brokers — where we write primary insurance produced through licensed intermediaries on a risk-by-risk basis.

Our Individual Risk business is written by the Glencoe Group through its principal operating subsidiaries Glencoe and Lantana, which write on an excess and surplus lines basis, and through Stonington, which writes on an admitted basis. As noted above, we substantially rely on third parties for services including the generation of premium, the issuance of policies and the processing of claims. We actively oversee our third-party partners through an operations review team at Glencoe Group Services Inc., which conducts initial due diligence as well as ongoing monitoring.

New Business

In addition to our existing reinsurance and insurance businesses, from time to time, we consider opportunistic diversification into new ventures, either through organic growth, the formation of new joint ventures, or the acquisition of other companies or books of business of other companies. This potential diversification includes opportunities to write targeted classes of non-catastrophe business, both directly for our own account and through possible new joint venture opportunities.

In evaluating such new ventures, we seek an attractive return on equity, the ability to develop or capitalize on a competitive advantage, and opportunities that will not detract from our core Reinsurance and Individual Risk operations. Accordingly, we regularly review strategic opportunities and periodically engage in discussions regarding possible transactions, although there can be no assurance that we will complete any such transactions or that any such transaction would contribute materially to our results of operations or financial condition.

Modeling

We have developed a proprietary, computer-based pricing and exposure management system, Renaissance Exposure Management System (REMS©). REMS© has analytic and modeling capabilities that help us to assess the risk and return of each incremental reinsurance contract in relation to our overall portfolio of reinsurance contracts. Catastrophe exposure data is gathered from clients and other third parties and this exposure data is input into our REMS© modeling system. The REMS© modeling system enables us to measure each policy on a consistent basis and provides us with a measurement of an appropriate price to charge for each policy based upon the risk that is assumed. We combine the analyses generated by REMS© with other information available to us, including our own knowledge of the client submitting the proposed program. While REMS© is most developed in analyzing catastrophe risks, it is also used for analyzing other classes of risk. We believe that our tools for assessing non-catastrophe risks are comparatively less sophisticated and less well developed than those for catastrophe risks. We are working to better develop our analytical techniques relating to non-catastrophe risks.

REMS© combines computer-generated simulations that estimate event probabilities with exposure and coverage information on each client's reinsurance contract to produce an estimate of expected claims for reinsurance programs submitted to us. We have also customized REMS© by including additional perils, risks and geographic areas that are not captured in commercially available models.

We periodically review our catastrophe assumptions in REMS©. We have had an ongoing review of our Atlantic hurricane model for the past two years, and in the second half of 2005 we decided to revise our assumptions around Atlantic basin hurricane frequency and severity. Most commercial catastrophe models base their frequency and severity distributions on the last 100 years of hurricane activity. These commercial models assume that a long term view of hurricane risk is appropriate for the insurance industry. Based on our review of the scientific literature, private research, and discussions with some of the leading climatologists and meteorologists, we do not currently believe the past 100 years of data is reflective of current activity. We believe there has been an increase in the frequency and severity of hurricanes that develop in the Atlantic basin and that have the potential to make landfall in the U.S. We started using these revised assumptions in REMS© to model and evaluate our portfolio of risk in the latter part of 2005. These assumptions involve significant judgment on our part, and further experience or scientific research may lead us to further adjust these assumptions.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

Claims and Claim Expense Reserves

We believe that the most significant accounting judgment made by management is our estimate of claims and claim expense reserves. Claims reserves represent estimates, including actuarial and statistical projections at a given point in time, of the ultimate settlement and administration costs of claims incurred. Our estimates are not precise in that, among other things, they are based on predictions of future developments and estimates of future trends and other variable factors such as inflation. It is likely that the ultimate liability will be greater or less than such estimates and that, at times, this variance will be material. Also, reserving for our Reinsurance and Individual Risk

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businesses can involve added uncertainty because of the dependence on information from ceding companies, the time lag inherent in reporting information from the primary insurer to us, and differing reserving practices among ceding companies. The information received from ceding companies is typically in the form of bordereaux, broker notifications of loss and/or discussions with ceding companies or their brokers. This information can be received on a monthly, quarterly or transactional basis and normally includes estimates of paid and incurred losses and may sometimes also include an estimate for incurred but not reported claims (‘‘IBNR’’).

For our property catastrophe reinsurance business, which is generally characterized by loss events of low frequency and high severity, reporting of claims in general tends to be relatively prompt (as compared to reporting of claims for ‘‘long-tail’’ products, which tends to be relatively slower). However, the timing of claims reporting also varies depending on various factors, including: whether the claims arise under reinsurance of primary companies or reinsurance of other reinsurance companies; the nature of the events (e.g., hurricanes, earthquakes or terrorism); the geographic area involved; and the quality of each customer's claims management and reserving practices. Management's judgments regarding these factors are reflected in management's reserve estimates. Because the events from which claims arise under policies written by our property catastrophe reinsurance business are typically prominent, public occurrences such as hurricanes and earthquakes, we are often able to use independent reports of such events to augment our loss reserve estimation process. However, based upon the amount and timing of the reported claims from any one or more catastrophic events, such reserve estimates may change significantly from one quarter to another. Once we receive a notice of loss under a catastrophe reinsurance contract, we are generally able to process such claims promptly.

For our property catastrophe reinsurance operations, we initially set our claims reserves based on case reserves reported by insureds and ceding companies. We then add to these case reserves our estimates for additional case reserves, and an estimate for IBNR. In addition to the loss information and estimates communicated by cedants, we also use industry information which we gather and retain in our REMS© modeling system. When property catastrophe losses do occur, the information stored in our REMS© modeling system enables us to analyze each of our policies against such loss and compare our estimate of the loss with those reported by our policyholders. The REMS© modeling system also allows us to compare and analyze individual losses reported by policyholders affected by the same loss event. Although the REMS© modeling system assists with the analysis of the underlying loss and provides us with the information and ability to perform increased analysis, the estimation of claims resulting from catastrophic events is inherently difficult because of the variability and uncertainty associated with property catastrophe claims and the unique characteristics of each loss.

Since 2003 our Individual Risk segment has been issuing insurance policies for certain commercial liability coverages, including general, automobile and professional liability risks. The claim reporting and claim development periods of these risks are generally expected to be longer than the reporting and development periods for our property risks, and, accordingly, there is normally greater uncertainty in the estimation of the reserves associated with these policies.

The loss estimation for the coverages we offer through our specialty reinsurance and Individual Risk operations is different than that for property catastrophe-oriented coverages, and these coverages are more subject to factors such as long-term inflation and changes in the social and legal environment, which we believe gives rise to greater uncertainty. Moreover, in reserving for our specialty reinsurance and Individual Risk coverages we do not have the benefit of a significant amount of our own historical experience in these lines. We estimate our IBNR for these coverages by utilizing an actuarial method known as the Bornhuetter-Ferguson technique. The utilization of the

Bornhuetter-Ferguson technique requires us to estimate an expected ultimate claims and claim expense ratio and select an estimated loss reporting pattern. We select our estimates of the expected ultimate claims and claim expense ratios and estimated loss reporting patterns by reviewing industry standards and adjusting these standards based upon the terms of the coverages we offer. The estimated claims and claim expense ratio may be modified to the extent that reported losses at a given point in time differ from what would be expected based on the selected loss reporting pattern. For the Company's specialty and Individual Risk lines we also considered estimating reserves utilizing paid and incurred development

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methods. We elected to use the Bornhuetter-Ferguson technique because this method allows for weight to be applied to expected results, and, hence, is less susceptible to the potential pitfall of being excessively swayed by one year or one quarter of paid and/or reported loss data.

The Company's reserving methodology for each line of business, as discussed above, uses a loss reserving model that calculates a point estimate for the Company's ultimate losses as opposed to a methodology that develops a range of estimates. The Company then uses this point estimate, along with paid and incurred data, to record its estimate of IBNR. The Company does not use sensitivity analysis in calculating reserves and therefore does not make any specific quantitative assumptions in connection with such an analysis. See ‘‘Reserves for Claims and Claim Expenses’’ for a breakdown of our case reserves, additional case reserves and IBNR by line of business.

Because any reserve estimate is simply an insurer's estimate of its ultimate liability, and because there are numerous factors which affect reserves but cannot be determined with certainty in advance, our ultimate payments will vary, perhaps materially, from our initial estimate of reserves. Therefore, because of these inherent uncertainties, we have developed a reserving philosophy which attempts to incorporate prudent assumptions and estimates. In future periods, assuming future reported and paid claims activity is consistent with that of recent quarters, and barring unforeseen circumstances, we believe that, as our reserves on older accident years continue to age, we may experience further reductions to our older accident year reserves. However, there is no assurance that this will occur.

We review our estimates annually with an independent actuarial firm. We also review certain assumptions and methodologies on a quarterly basis. If we determine that adjustments to an earlier estimate are appropriate, such adjustments are recorded in the quarter in which they are identified. Adjustments to our prior year estimated claims reserves will impact our current year net income (loss) by increasing our net income or decreasing our net loss if the prior year estimated claims reserves are determined to be overstated, or by reducing our net income or increasing our net loss if the prior year estimated claims reserves are determined to be insufficient. During the six months ended June 30, 2006 and 2005, changes to prior year estimated claims reserves had the following impact: during the first six months of 2006, prior year estimated claims reserves were reduced by $53.2 million and during the first six months of 2005, prior year estimated claims reserves were reduced by $82.7 million and in each period there was a corresponding increase to net income. Although we believe we are cautious in our assumptions, and in the application of our methodologies, we cannot be certain that our ultimate payments will not vary, perhaps materially, from the estimates we have made. See ‘‘Reserves for Claims and Claim Expenses’’.

As noted above, because of the numerous factors which can affect reserves for claims and claim expenses, but which cannot be determined with certainty in advance, we have a reserving philosophy which attempts to incorporate prudent assumptions and estimates. In recent years, we have experienced favorable reserve development on our reserves for older accident years. In comparison to our property catastrophe portfolio of reinsurance coverage which we have been writing for over ten years, we do not have the benefit of a significant amount of our own historical experience in our specialty reinsurance and Individual Risk lines.

During 2005 we incurred significant losses from hurricanes Katrina, Rita and Wilma, following significant losses in 2004 from hurricanes Charley, Frances, Ivan and Jeanne. Our estimates of these losses are based on factors including currently available information derived from claims information from our clients and brokers, industry assessments of losses from the events, proprietary models, and the terms and conditions of our contracts. In particular, due to the size and unusual complexity of the issues relating to hurricane Katrina, meaningful uncertainty remains regarding total covered losses for the insurance industry and, accordingly, several of the key assumptions underlying our loss estimates. In addition, actual losses from these events may increase if our reinsurers fail to meet their obligations. Our actual losses from these events will likely vary, perhaps materially, from these current estimates due to the inherent uncertainties in reserving for such losses, including the preliminary nature of the available information, the potential inaccuracies and inadequacies in the data provided by clients and brokers, the inherent uncertainty of modeling techniques and the application of such techniques, the effects of any demand surge on claims activity and complex coverage and other legal issues.

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Losses Recoverable

We enter into ceded reinsurance agreements in order to help reduce our exposure to large losses and to help manage our risk portfolio. Amounts recoverable from reinsurers are estimated in a manner consistent with the claims and claim expense reserves associated with the related assumed reinsurance. For multi-year retrospectively rated contracts, we accrue amounts (either assets or liabilities) that are due to or from assuming companies based on estimated contract experience. If we determine that adjustments to earlier estimates are appropriate, such adjustments are recorded in the period in which they are determined.

The estimate of losses recoverable can be more subjective than estimating the underlying claims and claim expense reserves as discussed under the heading ‘‘Claims and Claim Expense Reserves’’ above. In particular, losses recoverable may be affected by deemed inuring reinsurance, industry losses reported by various statistical reporting services, our expectations about the willingness of our counterparties to pay our claims and other factors. Losses recoverable on dual trigger reinsurance contracts require us to estimate our ultimate losses applicable to these contracts as well as estimate the ultimate amount of insured industry losses that will be reported by the applicable statistical reporting agency, as per the contract terms. In addition, the level of our additional case reserves and IBNR have a significant impact on losses recoverable. These factors can impact the amount of the losses recoverable to be recorded as well as delay the recognition of losses recoverable to reporting periods that are different from the underlying loss.

The majority of the balance we have accrued as recoverable will not be due for collection until some point in the future. The amounts recoverable ultimately collected are open to uncertainty due to the ultimate ability and willingness of reinsurers to pay our claims, for reasons including insolvency and elective run-off, contractual dispute and various other reasons. In addition, because the majority of the balances recoverable will not be collected for some time, economic conditions as well as the financial and operational performance of a particular reinsurer may change, and these changes may affect the reinsurer's willingness and ability to meet their contractual obligations to us. To reflect these uncertainties, we estimate and record a valuation allowance for potential uncollectible losses recoverable which reduces losses recoverable and net earnings.

We estimate our valuation allowance by applying specific percentages against each recovery based on our counterparty's credit rating. The percentages applied are based on historical industry default statistics developed by major rating agencies and are then adjusted by us based on industry knowledge and our judgment and estimates. We also apply case-specific valuation allowances against certain recoveries that we deem unlikely to be collected in full. We then evaluate the overall adequacy of the valuation allowance based on other qualitative and judgmental factors. The valuation allowance recorded against losses recoverable was $25.2 million at June 30, 2006 (December 31, 2005 – $46.0 million). The reinsurers which made up the three largest balances accounted for 39.6%, 8.0% and 6.0%, respectively, of our losses recoverable balance at June 30, 2006 (December 31, 2005 – 17.9%, 14.7% and 11.8%, respectively). The three largest company-specific components of the valuation allowance represented 33.9%, 7.9% and 6.3% of our total valuation allowance at June 30, 2006 (December 31, 2005 – 39.6%, 18.1% and 10.3%).

Premiums

We recognize premiums as revenue over the terms of the related contracts and policies. Our written premiums are based on policy and contract terms and include estimates based on information received from both insureds and ceding companies. The information received is typically in the form of a bordereaux, broker notifications and/or discussions with ceding companies or their brokers. This information can be received on a monthly, quarterly or transactional basis and normally includes estimates of written premium (including adjustment and reinstatement premium), earned premium, acquisition costs and ceding commissions.

Consistent with industry practice, we generally recognize premium on the date the contract is bound, even if the contract provides for an effective date prior to the date the contract is bound, thus preventing premature revenue recognition. The date the contract is bound is usually the date we are

on risk for the policy and this is generally the date on which the reinsurance slip is signed. The signing of the reinsurance contract normally occurs after the date the slip is signed.

We book premiums on non-proportional contracts in accordance with the contract terms. Premiums written on losses occurring contracts are typically earned over the contract period. Premiums on risks attaching contracts are either estimated or earned as reported by the cedants, which may be over a period more than twice as long as the contract period. For multi-year policies, only the initial annual premium is included as written at policy inception. The remaining annual premiums are included as written at each successive anniversary date within the multi-year term. Management is required to make estimates based on judgment and historical experience for periods during which information has not yet been received.

In our Individual Risk business, it is often necessary to estimate portions of premiums written from quota-share contracts and by program managers and the related commission expense. Management estimates these amounts based on discussions with ceding companies and program managers, together with historical experience and judgment. Total premiums written estimated in our Individual Risk business in the six months ended June 30, 2006 and 2005 were $40.9 million and $50.0 million, respectively, and total premiums earned estimated were $3.3 million and $8.8 million, respectively. Total incurred commissions estimated in the six months ended June 30, 2006 and 2005 were $1.3 million and $2.1 million, respectively. Management tracks the actual premium received and commissions incurred and compares this to the estimates previously booked. Such estimates are subject to adjustment in subsequent periods when actual figures are recorded. To date, such subsequent adjustments have not been material.

Since premiums for our Reinsurance segment are contractually driven and the reporting lag for such premiums is minimal, estimates for premiums written for this segment are usually not significant. The minimum and deposit premiums on excess policies are usually set forth in the language of the contract and are used to record premiums on these policies. Actual premiums are determined in subsequent periods based on actual exposures and any adjustments are recorded in the period in which they are identified.

Reinstatement premiums are estimated after the occurrence of a significant loss and are recorded in accordance with the contract terms based upon paid losses and case reserves reported in the period. Reinstatement premiums are earned when written.

Ceded premiums are also recognized on the date the contract is bound and are deducted from gross written premium, to arrive at net premiums written. Ceded premiums are earned over the terms of the related contracts and policies, and are reflected as a reduction to gross premiums earned to arrive at net premiums earned.

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SUMMARY OF RESULTS OF OPERATIONS

For the three months ended June 30, 2006 compared to the three months ended June 30, 2005

Summary Overview

Three months ended June 30 (in thousands of U.S. dollars, except per share amounts and ratios)	2006	2005	$ Change	% Change
Gross premiums written	$ 742,551	$ 443,483	$ 299,068	67.4%
Net premiums written	512,244	387,889	124,355	32.1%
Net premiums earned	430,941	338,753	92,188	27.2%
Net claims and claim expenses incurred	207,336	108,799	98,537	90.6%
Underwriting income	119,952	161,003	(41,051)	(25.5)%
Net investment income	74,012	45,769	28,243	61.7%
Net income available to common shareholders	130,408	171,982	(41,574)	(24.2)%
Net income available to common shareholders per Common Share – diluted	$ 1.81	$ 2.39	$ (0.58)	(24.3)%
Net claims and claim expense ratio – accident year	50.7%	51.3%	(0.6)%	
Net claims and claim expense ratio – calendar year	48.1%	32.1%	16.0%	
Underwriting expense ratio	24.1%	20.4%	3.7%	
Combined ratio	72.2%	52.5%	19.7%	

At June 30, 2006 and March 31, 2006	June 30, 2006	March 31, 2006	Change	% Change
Book value per common share	$ 28.37	$ 26.65	$ 1.72	6.5%
Accumulated dividends per common share	5.70	5.49	0.21	3.8%

Book value per common share plus accumulated dividends	$ 34.07	$ 32.14	$ 1.93	6.0%

Net income available to common shareholders was $130.4 million in the second quarter of 2006, compared to $172.0 million in the second quarter of 2005. Our second quarter 2005 net income was positively impacted by $108.2 million from the results of our catastrophe reinsurance reserve review. Fully diluted net income available to common shareholders per common share was $1.81 for the second quarter of 2006, compared to $2.39 in the second quarter of 2005. The decrease in net income and fully diluted earnings per share from the second quarter of 2005 to the second quarter of 2006 was primarily due to a $41.1 million decrease in underwriting income, $24.3 million of net realized losses on investments in the second quarter of 2006 compared to net realized investment gains of $1.6 million in the second quarter of 2005, and partially offset by a $28.2 million increase in net investment income.

Book value per common share increased $1.72 or 6.5% to $28.37 at June 30, 2006, compared to $26.65 at March 31, 2006. Book value per common share plus accumulated dividends increased $1.93 or 6.0% to $34.07 at June 30, 2006, compared to $32.14 at March 31, 2006. The growth in book value per share was driven by our net income of $130.4 million, less $15.1 million of common dividends for the second quarter of 2006. Common shares outstanding decreased slightly to 71.8 million at June 30, 2006 from 71.9 million at March 31, 2006.

Underwriting Results

In the second quarter of 2006, we generated $120.0 million of underwriting income, compared to $161.0 million in the second quarter of 2005. Underwriting income in 2005 was positively impacted our catastrophe reinsurance reserve review noted above, which decreased prior year net claims and claim expenses by $118.2 million. The decrease in underwriting income was driven by higher acquisition costs and net claims and claim expenses as discussed below. We had a combined ratio of 72.2%, a net claims and claim expense ratio of 48.1% and an underwriting expense ratio of 24.1% in the second quarter of 2006, compared to a combined ratio, net claims and claim expense ratio and underwriting expense ratio of 52.5%, 32.1% and 20.4%, respectively, in the second quarter of 2005.

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Gross premiums written increased $299.1 million or 67.4% to $742.6 million in the second quarter of 2006, compared to $443.5 million in the second quarter of 2005. The increase in gross premiums written was principally attributable to our Reinsurance segment where gross premiums written increased $308.4 million or 138.1%. The growth came from an increase in our U.S. property catastrophe excess of loss reinsurance premium where we found pricing and terms attractive in this market and accordingly wrote more business in the second quarter of 2006 compared to the second quarter of 2005. Included in this are $111.3 million of premiums written on behalf of two new fully-collateralized joint ventures, Starbound and Tim Re, which commenced operations during the quarter. This premium is ceded to these fully-collateralized joint ventures and therefore had no impact our net premiums written.

Net premiums written increased $124.4 million or 32.1% in the second quarter of 2006 to $512.2 million from $387.9 million in the second quarter of 2005. The increase in net premiums written was due to the growth in gross premiums written, partially offset by a $174.7 million increase in ceded premiums written. Ceded premiums written includes the $111.3 million ceded to Starbound and Tim Re. Net premiums earned increased $92.2 million or 27.2% to $430.9 million in the second quarter of 2006, compared to $338.8 million in the second quarter of 2005 due to the growth in net premiums written noted above.

Net claims and claim expenses increased by $98.5 million to $207.3 million in the second quarter of 2006 compared to $108.8 million in the same quarter of 2005, due in part to a $44.8 million increase in current accident year losses. In addition, the Company experienced $11.3 million in favorable loss reserve development in 2006 compared to $65.1 million in 2005. The increase in current accident year losses was principally due to a higher level of catastrophe losses within our Reinsurance segment in the second quarter of 2006 compared with the second quarter of 2005 as well as higher losses in our Individual Risk segment. The increase in Individual Risk losses was principally driven by additional earned premium on a seasonal multi-peril crop program that has a higher attritional loss ratio than the rest of the Individual Risk business as well as several large per risk losses within the Company's quota share business. The favorable development in the second quarter of 2005 was principally due to the Company's catastrophe reinsurance reserve review which resulted in a $118.2 million decrease in prior year reserves in the second quarter of 2005 and partially offset by adverse development on the 2004 hurricanes.

Net Investment Income

Net investment income increased $28.2 million to $74.0 million in the second quarter of 2006, compared to $45.8 million for the second quarter in 2005 reflecting a higher yield on our portfolio of fixed maturity investments available for sale and short term investments, strong performance by our other investments, and an increase in average invested assets. Our other investments, which include hedge funds and private equity investments, earned $11.1 million in the second quarter of 2006 compared to $7.1 million in the second quarter of 2005.

Net Realized Investment Losses

In the second quarter of 2006, we incurred net realized investment losses of $24.3 million compared to net realized investment gains of $1.6 million in the second quarter of 2005. Net realized investment losses in the second quarter of 2006 were driven by $23.7 million of other than temporary impairment charges compared to $0.6 million in the second quarter of 2005. The increase in other than temporary impairment charges was principally due to the impact of increasing interest rates on our portfolio of fixed maturity investments available for sale. The increasing rates resulted in unrealized losses on our portfolio of fixed maturity securities available for sale, which we subsequently treated as impaired. Net realized gains in the second quarter of 2005 were principally driven by trading activity in a rising interest rate environment.

Equity in Earnings of Other Ventures

Equity in earnings of other ventures in the second quarter of 2006 represents our pro-rata share of the net income from our investments in our joint ventures, Top Layer Re, ChannelRe, Starbound, and

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Tower Hill. Equity in earnings of other ventures generated $9.2 million in income in the second quarter of 2006, compared to $7.8 million in the second quarter of 2005. Included in this is our equity in the earnings of our investment in Top Layer Re of $3.5 million in the second quarter of 2006, compared to $3.7 million for the same period in 2005. Our equity in the earnings of ChannelRe was $4.6 million for the second quarter of 2006, compared to $3.8 million for the second quarter of 2005. We recorded earnings of $0.8 million from our Tower Hill investment in the second quarter of 2006 compared to $0.4 million in the second quarter of 2005. Our equity pick-up from ChannelRe and Tower Hill is recorded one quarter in arrears.

Other (Loss) Income

The fee income and other items as reported in other income are detailed below:

Three months ended June 30,	2006	2005
(in thousands of U.S. dollars)		
Fee income	$ 1,504	$ 1,001
Other items	(1,588)	2,204