RENAISSANCERE HOLDINGS LTD
Form 10-K
March 01, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For The Fiscal Year Ended December 31, 2006

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 No. 34-0-26512

RENAISSANCERE HOLDINGS LTD.

(Exact Name Of Registrant As Specified In Its Charter)

Bermuda (State or Other Jurisdiction of Incorporation or Organization)	98-014-1974 (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)

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

Title of each class	Name of each exchange on which registered
Common Shares, Par Value $1.00 per share	New York Stock Exchange, Inc.
Series B 7.30% Preference Shares, Par Value $1.00 per share	New York Stock Exchange, Inc.
Series C 6.08% Preference Shares, Par Value $1.00 per share	New York Stock Exchange, Inc.

Series D 6.60% Preference Shares, Par Value $1.00 per share New York Stock Exchange, Inc.
Securities registered pursuant to Section 12(g) of the Act: None

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

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

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 No

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

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 Act. Large accelerated filer , Accelerated filer , Non-accelerated filer

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

The aggregate market value of Common Shares held by nonaffiliates of the registrant at June 30, 2006 was $3,327,291,028 based on the closing sale price of the Common Shares on the New York Stock Exchange on that date.

The number of Common Shares outstanding at February 12, 2007 was 72,162,897.

The information required by Part III of this report, to the extent not set forth herein, is incorporated by reference to the registrant's Definitive Proxy Statement to be filed in respect of our 2007 Annual General Meeting of Shareholders.

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PART I

Unless the context otherwise requires, references in this Annual Report to ''RenaissanceRe'' or the ''Company'' mean RenaissanceRe Holdings Ltd. and its subsidiaries, which principally include Renaissance Reinsurance Ltd. (''Renaissance Reinsurance''), Renaissance Reinsurance of Europe (''Renaissance Europe''), Glencoe Group Holdings Ltd. (''Glencoe Group''), Glencoe Specialty Holdings Ltd. (''Glencoe Holdings''), Glencoe Insurance Ltd. (''Glencoe''), Glencoe U.S. Holdings Inc. (''Glencoe U.S.''), Stonington Insurance Company (''Stonington''), Lantana Insurance Ltd. (''Lantana''), Glencoe Group Services Inc. (''Glencoe Group Services''), Renaissance Underwriting Managers, Ltd. (''RUM''), RenaissanceRe Ventures Ltd. (''Ventures''), Timicuan Reinsurance Ltd. (''Tim Re''), RenTech U.S. Holdings Inc. (''RenTech''), RenRe Investment Managers Ltd. (''RIM''), Skyland Ltd. (''Skyland''), Weather Predict Inc. (''Weather Predic Weather Predict Consulting Inc. (''WP Consulting''), RenaissanceRe Capital Trust (''Capital Trust''), Renaissance Investment Management Company Ltd. (''RIMCO''), Renaissance Investment Holdings Ltd. (''RIHL'') and RenaissanceRe Services Ltd. (''Renaissance Services''). We also underwrite reinsurance 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 financial results of DaVinci and DaVinci's parent company, DaVinciRe Holdings Ltd. (''DaVinciRe''), are consolidated in our financial statements. Unless the context otherwise requires, references to RenaissanceRe do not include any of the joint ventures, which we account for under the equity method and for which we provide underwriting services. For your convenience, we have included a glossary beginning on page 56 of selected insurance and reinsurance terms. All dollar amounts referred to in this Form 10-K are in U.S. dollars unless otherwise indicated. Any discrepancies in the tables included herein between the amounts listed and the totals thereof are due to rounding.

NOTE ON FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the ‘‘Exchange Act’’). Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, us.

In particular, statements using words such as ‘‘may,’’ ‘‘should,’’ ‘‘estimate,’’ ‘‘expect,’’ ‘‘anticipate,’’ ‘‘intends,’’ ‘‘believe,’’ ‘‘potential’’ or words of similar import generally involve forward-looking statements. For example, we may include certain forward-looking statements in ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations’’ with regard to trends in results, prices, volumes, operations, investment results, margins, combined ratios, reserves, overall market trends, risk management and exchange rates. This Form 10-K also contains forward-looking statements with respect to our business and industry, such as those relating to our strategy and management objectives, trends in market conditions, prices, market standing and product volumes, investment results and pricing conditions in the reinsurance and insurance industries.

In light of the risks and uncertainties inherent in all future projections, the inclusion of forward-looking statements in this report should not be considered as a representation by us or any other person that our objectives or plans will be achieved. Numerous factors could cause our actual results to differ materially from those addressed by the forward-looking statements, including the following:

- we are exposed to significant losses from catastrophic events and other exposures that we cover that may cause significant volatility in our financial results;
- the frequency and severity of catastrophic events could exceed our estimates and cause losses greater than we expect;
- risks associated with implementing our business strategies and initiatives, including the risks with building the operations, controls and other infrastructure necessary in respect of our more recent, new or proposed initiatives;

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- risks relating to our strategy of relying on program managers, third-party administrators, and other vendors to support our Individual Risk operations;
- other risks of doing business with program managers, including the risk we might be bound to policyholder obligations beyond our underwriting intent, and the risk that our program managers or agents may elect not to continue or renew their programs with us;
- risks associated with executing our strategy in our newer specialty reinsurance and Individual Risk businesses;
- the risk of the lowering or loss of any of the ratings of RenaissanceRe or of one or more of our subsidiaries or changes in the policies or practices of the rating agencies;
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risks relating to the passage of recent legislation in Florida relating to reinsurance coverages offered by the Florida Hurricane Catastrophe Fund (''FHCF'') and insurance policies written by the State sponsored Citizens Property Insurance Corporation (''Citizens'');

- the inherent uncertainties in our reserving process, including those related to the 2005 catastrophes, which uncertainties we believe are increasing as we diversify into new product classes;
- risks associated with appropriately modeling, pricing for, and contractually addressing new or potential factors in loss emergence, such as the possible trend toward significant global warming and other aspects of climate change which have the potential to adversely affect our business, or the potential for significant industry losses from a matter such as an avian flu pandemic which could cause us to underestimate our exposures and potentially adversely impact our financial results;
- we may be affected by increased competition, including from new entrants formed following hurricane Katrina, or in future periods by a decrease in the level of demand for our reinsurance or insurance products, particularly as capital markets products provide alternatives and replacements for our more traditional reinsurance and insurance products;
- risks due to our dependence on a few insurance and reinsurance brokers for a large portion of our revenue, a risk we believe is increasing as a larger portion of our business is provided by a small number of these brokers;
- emerging claims and coverage issues, which could expand our obligations beyond the amount we intend to underwrite;
- failures of our reinsurers, brokers or program managers to honor their obligations, including their obligations to make third-party payments for which we might be liable;
- the risk that ongoing or future industry regulatory developments will disrupt our business, or that of our business partners, or mandate changes in industry practices in ways that increase our costs, decrease our revenues or require us to alter aspects of the way we do business;
- risks that the ongoing industry investigations, or the current governmental investigations and related proceedings involving former executives of the Company might impact us adversely, including as regards to our senior executive team;
- risks relating to the availability and collectibility of our reinsurance with respect to both our Reinsurance and Individual Risk operations;
- changes in economic conditions, including interest rate, currency, equity and credit conditions which could affect our investment portfolio, or declines in our investment returns for other reasons;
- a contention by the U.S. Internal Revenue Service that our Bermuda subsidiaries, including Renaissance Reinsurance, DaVinciRe, Glencoe and RIHL, are subject to U.S. taxation;
- the passage of federal or state legislation subjecting Renaissance Reinsurance or our other Bermuda subsidiaries to supervision, regulation or taxation in the U.S. or other jurisdictions in which we operate;

- loss of services of any one of our key executive officers, or difficulties associated with the transition of new members of our senior management team;
- risks that we may require additional capital in the future, in particular after a catastrophic event, which may not be available or may be available only on unfavorable terms;
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changes in the distribution or placement of risks due to increased consolidation of clients, or insurance and reinsurance brokers, or program managers, or from potential changes in their business practices which may be required by future regulatory changes;

- extraordinary events affecting our clients or brokers, such as bankruptcies and liquidations, and the risk that we may not retain or replace our large clients;
- sanctions against us, as a Bermuda-based company, by multinational organizations;
- changes in insurance regulations in the U.S. or other jurisdictions in which we operate, including the risks that U.S. federal or state governments will take actions to diminish the size of the private markets in respect of the coverages we offer, the risk of potential challenges to the Company's claim of exemption from insurance regulation under current laws, the risk of increased global regulation of the insurance and reinsurance industry, and the risk that the Terrorism Risk Insurance Act of 2002 (''TRIA'') will not be renewed after 2007;
- acts of terrorism, war or political unrest;
- possible challenges in maintaining our fee-based operations, including risks associated with retaining our existing partners and attracting potential new partners; and
- operational risks, including system or human failures.

The factors listed above should not be construed as exhaustive. Certain of these factors are described in more detail in ''Risk Factors'' below. We undertake no obligation to release publicly the results of any future revisions we may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

ITEM 1. BUSINESS

GENERAL

RenaissanceRe, established in Bermuda in 1993 to write principally property catastrophe reinsurance, is today a leading global provider of reinsurance and insurance. Through our operating subsidiaries, we seek to obtain a portfolio of reinsurance, insurance and financial risks in each of our businesses that are significantly better than the market average and produce an attractive return on equity. Overall, our strategy focuses on superior risk selection, active capital management, superior utilization of risk management and information systems, the development and enhancement of a high performance and ethical culture and our commitment to our clients and joint venture partners. We provide value to our clients in the form of financial security, innovative products, and responsive service. We are known as a leader in paying valid reinsurance claims promptly. We measure our financial success through long-term growth in tangible book value per common share plus accumulated dividends, which we believe is the most appropriate measure of our Company's performance, and believe we have delivered superior performance in respect of this measure in the past.

Our core products include property catastrophe reinsurance, which we write through our principal operating subsidiary Renaissance Reinsurance and joint ventures, principally DaVinci, Top Layer Re and Starbound Reinsurance Ltd. (''Starbound Re''); specialty reinsurance risks through Renaissance Reinsurance and DaVinci; and primary insurance and quota share reinsurance, which we write through the operating subsidiaries of the Glencoe Group. We believe that we are one of the world's leading providers of property catastrophe reinsurance. We also believe we have a strong position in certain specialty reinsurance lines of business and are building a unique franchise in the U.S. program business. Our reinsurance and insurance products are principally distributed through intermediaries, with whom we seek to cultivate strong relationships.

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We conduct our business through two reportable segments, Reinsurance and Individual Risk. For the year ended December 31, 2006, our Reinsurance and Individual Risk segments accounted for approximately 64.5% and 35.5%, respectively, of our total consolidated gross premiums written. Our segments are more fully described in ‘‘Business Segments’’ below.

Underwriting and Risk Management

A principal focus of RenaissanceRe is to develop and effectively utilize sophisticated computer models and other analytical tools to assess the risks that we underwrite and attempt to optimize our portfolio of reinsurance and insurance contracts and other financial risks. These efforts are managed across our organization by a team of professionals led by our chief underwriting officer.

With respect to our Reinsurance operations, since 1993 we have developed a proprietary, computer-based pricing and exposure management system, Renaissance Exposure Management System (REMS©). As described in more detail below, we believe that REMS© is a more robust underwriting and risk management system than is currently commercially available elsewhere in the reinsurance industry and offers us a significant competitive advantage amongst our competitors. REMS© was developed to analyze catastrophe risks, and is being developed to analyze other classes of risk.

In addition to using REMS©, within our Individual Risk operations we have developed a proprietary information management and analytical database (Program Analysis Central Repository or ‘‘PACeR’’), within which data related to substantially all our U.S. program business is maintained. With the use and development of PACeR, we are seeking to develop statistical and analytical techniques to evaluate our U.S. program lines of business. We provide our clients with access to PACeR and believe it helps them understand their business and make better underwriting decisions, thus creating value for them and for us. Our objective is to have PACeR create an advantage for our Individual Risk operations by assisting us in building and maintaining a well-priced portfolio of specialty insurance risks.

New Business

In addition to the potential growth of 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, additional classes of risk-exposed business, both directly for our own account and through possible new joint venture opportunities. We also regularly evaluate opportunities to grow our business by utilizing our skills, capabilities, proprietary technology and relationships to expand into other risk-related coverages, services and products. Generally we focus on underwriting or trading risks where reasonably sufficient data may be available, and where our analytical abilities may provide us a competitive advantage, in order for us to seek to model estimated probabilities of losses and returns in accordance with our approach in respect of our current portfolio of risks.

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.

CORPORATE STRATEGY

We seek to generate long-term growth in tangible book value per common share plus accumulated dividends for our shareholders by pursuing the following strategic objectives:

- Superior Risk Selection. We seek to underwrite our reinsurance, insurance and financial risks through the use of sophisticated risk selection techniques, including computer models. We pursue a disciplined approach to underwriting and only select those risks that we believe will produce an attractive return on equity, subject to prudent risk constraints.

- Marketing. We believe our modeling and technical expertise, and the risk management advice that we provide to our clients, has enabled us to become a provider of first choice in many lines of business to our customers worldwide. We market our reinsurance products worldwide exclusively through reinsurance brokers. We seek to offer stable, predictable and consistent risk-based pricing. We seek to achieve a prompt turnaround on our claims.
- Active Capital Management. We aim to write as much attractively priced business as is available to us and then manage our capital accordingly. We typically seek to raise capital when we expect an increase in attractively priced business, and seek to return capital to our shareholders or joint venture investors when the amount of attractively priced business declines, and we believe a return of capital would be beneficial to our shareholders or joint venture investors.
- Joint Ventures. Building upon our relationships and expertise in risk selection, marketing and capital management, we seek to pursue and execute on joint venture and investment opportunities, which include new partners and diversifying classes of business. We believe our focus on our joint ventures allows us to leverage our access to business and our underwriting capabilities on an efficient capital base, develop fee income, and diversify our portfolio. We intend to pursue additional joint venture opportunities and strategic investments.

We believe we are positioned to fulfill these objectives by virtue of the experience and skill of our management team, our significant financial strength, and our strong relationships with brokers and clients. In addition, we believe our superior service, our proprietary modeling technology, and our extensive business relationships which have enabled us to become a leader in the property catastrophe reinsurance market will be instrumental in allowing us to achieve our strategic objectives. In particular, we believe our responsive, flexible strategy and capabilities permit us to differentiate ourselves by offering specialized services and products at times and in markets where capacity and alternatives are limited.

BUSINESS SEGMENTS

We conduct our business through two reportable segments, Reinsurance and Individual Risk. Financial data relating to our two segments is included in ‘‘Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations’’ and in our Financial Statements and Supplementary Data presented under Item 8.

Reinsurance Segment

Our Reinsurance operations are comprised of three units: 1) property catastrophe reinsurance, primarily written through Renaissance Reinsurance and DaVinci; 2) specialty reinsurance, primarily written through Renaissance Reinsurance and DaVinci; and 3) certain other activities of Ventures as described herein. Our Reinsurance operations are managed by the President of Renaissance Reinsurance, who leads a team of underwriters, risk modelers and other industry professionals, who have access to our proprietary risk management, underwriting and modeling resources and tools. We believe the expertise of our underwriting and modeling team and our proprietary analytic tools, together with superior customer service, provide us with a significant competitive advantage.

Our portfolio of business has continued to be increasingly characterized by relatively large transactions with ceding companies with whom we do business, although no current relationship exceeds 10% of our gross premiums written. Accordingly, our gross premiums written are subject to significant fluctuations depending on our success in maintaining or expanding our relationships with these large customers. We believe that recent market dynamics, and trends in our industry in respect of potential future consolidation, have increased our exposure to the risks of client and counterparty concentration.

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The following table shows our total managed catastrophe and specialty reinsurance gross premiums written:

Year ended December 31, (in thousands)	2006	2005	2004
Renaissance catastrophe premiums	$ 773,638	$ 573,393	$ 527,418
Renaissance specialty premiums	198,111	402,207	351,261
Total Renaissance premiums	971,749	975,600	878,679
DaVinci catastrophe premiums	325,476	202,180	174,592
DaVinci specialty premiums	23,938	25,195	31,625
Total DaVinci premiums	349,414	227,375	206,217
Total Reinsurance premiums	$ 1,321,163	$ 1,202,975	$ 1,084,896
Total specialty premiums (1)	$ 222,049	$ 427,402	$ 382,886
Total catastrophe premiums	$ 1,099,114	$ 775,573	$ 702,010
Catastrophe premiums written on behalf of our joint venture, Top Layer Re (2)	51,244	59,908	70,242
Catastrophe premiums assumed from our Individual Risk segment	(64,573)	(43,594)	(18,831)
Total managed catastrophe premiums (3)	1,085,785	791,887	753,421
Managed catastrophe premiums assumed on behalf of fully-collateralized joint ventures	(113,977)	—	—
Total managed catastrophe premiums, net of fully-collateralized joint ventures (3)	$ 971,808	$ 791,887	$ 753,421

(1) Total specialty premiums written includes $2.3 million, $1.7 million and $nil of premiums assumed from our Individual Risk segment for the years ended December 31, 2006, 2005 and 2004, respectively.

(2) Top Layer Re is accounted for under the equity method of accounting.

(3) In addition to the GAAP financial measures set forth in this Form 10-K, we have included certain non-GAAP financial measures in this Form 10-K within the meaning of Regulation G. We have consistently provided these financial measurements in previous filings and we believe that these measurements are important to investors and other interested parties, and that investors and other such

persons benefit from having a consistent basis for comparison with other companies within the industry. These measures may not, however, be comparable to similarly titled measures used by companies outside the insurance industry. Investors are cautioned not to place undue reliance on these non-GAAP measures in assessing our overall financial performance.

We have included in this Form 10-K ‘‘managed catastrophe premiums’’ and ‘‘managed catastrophe premiums, net of fully-collateralized joint ventures.’’ ‘‘Managed catastrophe premiums’’ is defined as gross catastrophe premiums written by Renaissance Reinsurance and its related joint ventures, excluding catastrophe premiums assumed from the Company’s Individual Risk segment. ‘‘Managed catastrophe premiums’’ differ from total catastrophe premiums, which the Company believes is the most directly comparable GAAP measure, due to the inclusion of catastrophe premiums written on behalf of the Company’s joint venture Top Layer Re, which is accounted for under the equity method of accounting and the exclusion of catastrophe premiums assumed from the Company’s Individual Risk segment. ‘‘Managed catastrophe premiums, net of fully-collateralized joint ventures’’ differ from total catastrophe premiums, which the Company believes is the most directly comparable GAAP measure, due to: 1) the inclusion of catastrophe

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premiums written on behalf of the Company’s joint venture Top Layer Re, which is accounted for under the equity method of accounting; 2) the exclusion of catastrophe premiums assumed from the Company’s Individual Risk segment; and 3) the deduction of catastrophe premiums that are written by the Company and ceded directly to the Company’s fully-collateralized joint ventures which include Starbound Re and Tim Re. The Company’s management believes ‘‘managed catastrophe premiums’’ is useful to investors and other interested parties because it provides a measure of total catastrophe reinsurance premiums assumed by the Company through its consolidated subsidiaries and related joint ventures. The Company believes ‘‘managed catastrophe premiums, net of fully-collateralized joint ventures’’ is also a useful measure to investors and other interested parties because it provides a measure of total catastrophe reinsurance premiums assumed by the Company through its consolidated subsidiaries and related joint ventures, net of catastrophe premiums assumed from the Company’s Individual Risk segment and net of catastrophe premiums written directly on behalf of the Company’s fully-collateralized joint ventures.

Property Catastrophe Reinsurance

We believe we are one of the largest providers of property catastrophe reinsurance in the world, based on our total managed catastrophe premium. Our principal property catastrophe reinsurance products include catastrophe excess of loss reinsurance and excess of loss retrocessional reinsurance as described below:

Catastrophe Excess of Loss Reinsurance. We principally write catastrophe reinsurance on an excess of loss basis, which means we provide coverage to our insureds when aggregate claims and claim expenses from a single occurrence of a covered peril exceed the attachment point specified in a particular contract. Under these contracts we indemnify an insurer for a portion of the losses on insurance policies in excess of a specified loss amount, and up to an amount per loss specified in the contract. The coverage provided under excess of loss reinsurance contracts may be on a worldwide basis or limited in scope to selected geographic areas. Coverage can also vary from ‘‘all property’’ perils to limited coverage on selected perils, such as ‘‘earthquake only’’ coverage.

Excess of Loss Retrocessional Reinsurance. We also write retrocessional reinsurance contracts that provide property catastrophe coverage to other reinsurers or retrocedants. In providing retrocessional reinsurance, we focus on property catastrophe retrocessional reinsurance which covers the retrocedant on an excess of loss basis when aggregate claims and claim expenses from a single occurrence of a covered peril and from a multiple number of reinsureds exceed a specified attachment point. The coverage provided under excess of loss retrocessional contracts may be on a worldwide basis or limited in scope to selected geographic areas. Coverage can also vary from ''all property'' perils to limited coverage on selected perils, such as ''earthquake only'' coverage. In addition, the information available to retrocessional underwriters concerning the original primary risk can be less precise than the information received from primary companies directly. Moreover, exposures from retrocessional business can change within a contract term as the underwriters of a retrocedant alter their book of business after retrocessional coverage has been bound.

Our property catastrophe reinsurance contracts are generally ''all risk'' in nature. Our most significant exposure is to losses from earthquakes and hurricanes and other windstorms, although we are also exposed to claims arising from other catastrophes, such as tsunamis, freezes, floods, fires, tornadoes, explosions and acts of terrorism in connection with the coverages we provide. Our predominant exposure under such coverage is to property damage. However, other risks, including business interruption and other non-property losses, may also be covered under our property reinsurance contracts when arising from a covered peril. We offer our coverages on a worldwide basis.

Because of the wide range of possible catastrophic events to which we are exposed, including the size of such events and because of the potential for multiple events to occur in the same time period, our catastrophe reinsurance business is volatile and our results of operations reflect this volatility. Further, our financial condition may be impacted by this volatility over time or at any point in time. The effects of claims from one or a number of severe catastrophic events could have a material adverse

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effect on us. We expect that increases in the values and concentrations of insured property and the effects of inflation will increase the severity of such occurrences in the future.

We seek to moderate the volatility described in the preceding paragraph through superior risk selection and portfolio diversification. We may opportunistically increase or decrease our presence in the catastrophe reinsurance business based on market conditions and our assessment of risk-adjusted pricing adequacy. Also, we may seek to purchase reinsurance or other protection for our own account to further reduce the financial impact that a large catastrophe or a series of catastrophes could have on our results.

As a result of our position in the market and reputation for superior customer service, we believe we have above average access to desirable business compared to the market as a whole. As described above, we use our proprietary underwriting tools and guidelines to attempt to construct an attractive portfolio from these opportunities. We dynamically model policy submissions against our current in-force portfolio, comparing the expected profit of the contract against the amount of capital that we allocate to the contract based on our estimate of its marginal impact on our overall portfolio risk. At times, our approach to portfolio management may result in our having a relatively large market share of catastrophe reinsurance exposure in a particular geographic region or to a particular peril, where we believe pricing is attractive, or, in contrast, a disproportionately low market share in regions or perils where we believe pricing is inadequate.

Specialty Reinsurance

We write a number of lines of reinsurance other than property catastrophe, such as catastrophe exposed workers' compensation, surety, terrorism, medical malpractice, casualty clash, certain other casualty lines and other specialty lines of reinsurance, which we collectively refer to as specialty reinsurance. As with our catastrophe business, our team of experienced professionals seeks to underwrite these lines using a disciplined underwriting approach and sophisticated analytical tools.

We believe that our underwriting and analytical capabilities have positioned us well to manage this business. We generally target lines of business where we believe we can adequately quantify the risks assumed and where potential losses could be characterized as low frequency and high severity, similar to our catastrophe reinsurance coverages. We also seek to identify market dislocations and will opportunistically write new lines of business whose risk and return characteristics are estimated to exceed our hurdle rates. We also seek to manage the correlations of this business with our overall portfolio, including our aggregate exposure to single and aggregated catastrophe events.

We offer our specialty reinsurance products principally on an excess of loss basis, as described above with respect to our catastrophe reinsurance products, and also provide some proportional coverage. In a proportional reinsurance arrangement (also referred to as quota share reinsurance and pro rata reinsurance); the reinsurer shares a proportional part of the original premiums and losses of the reinsured. The reinsurer pays the cedant a commission which is generally based on the cedant’s cost of acquiring the business being reinsured (including commissions, premium taxes, assessments and miscellaneous administrative expenses) and may also include a profit factor. Our products generally include tailored features such as limits or sub-limits which we believe help us manage our exposures. Any liability exceeding or otherwise not subject to such limits reverts to the cedant. As with our catastrophe reinsurance business, our specialty reinsurance frequently provides coverage for relatively large limits or exposures, and thus we are subject to potential significant claims volatility.

We generally seek to write significant lines on our specialty reinsurance treaties. As a result of our financial strength, we have the ability to offer significant capacity and, for select risks, we have made available limits of up to $150.0 million per program. We believe these capabilities, the strength of our specialty reinsurance underwriting team, and our demonstrated ability and willingness to pay valid claims are competitive advantages of our specialty reinsurance business.

Ventures

We pursue a number of other opportunities through our Ventures unit, which has responsibility for managing our joint venture relationships, executing customized reinsurance transactions to assume or cede risk and managing certain investments directed at classes of risk other than catastrophe reinsurance.

Property Catastrophe Managed Joint Ventures. We actively manage property catastrophe-oriented joint ventures, which provide us with an additional presence in the market as well as fee income. They allow us to leverage our access to business and our underwriting capabilities on a larger capital base. During 2006, we participated in two new joint ventures, Starbound and Tim Re. These two new joint ventures were utilized to provide capacity to the U.S. property catastrophe market, primarily for the 2006 U.S. hurricane season. Currently, our joint ventures include Top Layer Re, DaVinci, Starbound and Tim Re. We are the exclusive underwriting manager for each of these joint ventures.

DaVinci writes global reinsurance. In general, we seek to construct for DaVinci a property catastrophe reinsurance portfolio with risk characteristics similar to those of Renaissance Reinsurance’s property catastrophe reinsurance portfolio. We also write certain lines of specialty reinsurance for DaVinci. Currently these lines include terrorism and catastrophe exposed workers' compensation. We maintain majority voting control of DaVinciRe and, accordingly, consolidate the results of DaVinciRe into our consolidated results of operations and financial position. We seek to manage DaVinci's capital efficiently over time in light of the market opportunities and needs we perceive and believe we are able to serve. Our ownership in DaVinciRe was 20.5% and 19.7% at December 31, 2006 and 2005, respectively.

Top Layer Re writes high excess non-U.S. property catastrophe reinsurance. Top Layer Re is owned 50% by State Farm Mutual Automobile Insurance Company (''State Farm'') and 50% by Renaissance Reinsurance. State Farm provides $3.9 billion of stop loss reinsurance coverage to Top Layer Re. We account for Top Layer Re under the equity method and our proportionate share of its results is reflected in equity in earnings of other ventures in our consolidated statements of operations.

Starbound Re was formed in May 2006 to provide excess of loss property catastrophe reinsurance capacity, primarily for the 2006 U.S. hurricane season. 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 $184.0 million of debt on May 31, 2006. Our Ventures unit invested $28.8 million in Starbound during 2006 (May 2006 – $7.5 million, December 2006 – $21.3 million), which represents an equity interest in the earnings of Starbound of approximately 17.8% at December 31, 2006. We account for our investment in Starbound under the equity method of accounting. During 2006, Renaissance Reinsurance and DaVinci ceded a defined portfolio of property catastrophe excess of loss reinsurance contracts incepting between June 1, 2006 and July 1, 2006 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.

Tim Re writes U.S. excess of loss property catastrophe reinsurance. In May 2006, Tim Re, currently 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 for the 2006 U.S. hurricane season. Renaissance Reinsurance 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. In January 2007, the Company purchased all of the issued and outstanding Class B shares of Tim Re.

Customized Reinsurance Transactions.   Ventures works on a range of other customized reinsurance transactions. For example, we have participated in the market for catastrophe-linked securities. We also offer products through which we cede participations in the performance of our catastrophe reinsurance portfolio. We believe our products contain a number of customized features designed to fit the needs of our partners, as well as our risk management objectives.

Business Development Joint Ventures and Other Investments.   Ventures also pursues other types of investments where, rather than assuming exclusive management responsibilities ourselves, we instead

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partner with other market participants. These investments are directed at classes of risk other than catastrophe, and at times may also be directed at non-insurance risks. We find these investments attractive both for their expected returns, and also because they provide us diversification benefits and information and exposure to other aspects of the market.

Examples of these investments include:

- ChannelRe Holdings Ltd. (‘‘Channel Re’’) – a Bermuda-based financial guaranty reinsurer. We are a founding investor in Channel Re and contributed $119.7 million, or 32.7% as part of the initial capitalization of Channel Re on February 12, 2004. Channel Re assumed an approximate $27.0 billion (par amount) portfolio of in-force business from MBIA Inc., and certain of its affiliates, and participates in its reinsurance treaty and provides facultative reinsurance support. Channel Re has total claims-paying resources of approximately $924.0 million.
- Platinum Underwriters Holdings Ltd. (‘‘Platinum’’) – a Bermuda-based diversified reinsurance company. In 2002, we invested $84.2 million in exchange for 4.0 million common shares of Platinum, we obtained a warrant to purchase an additional 2.5 million common shares of Platinum at a strike price of $27.00, and entered into a variety of commercial relationships with Platinum. We sold our common shares in Platinum in December 2005. We are currently involved with and expect to continue to be involved with Platinum on a variety of commercial relationships. We also continue to own the warrant.
- Other investments and initiatives including ventures focused on trading weather-sensitive commodities, securities and derivatives.

Only 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 our investments in Top Layer Re, Channel Re, Starbound, Platinum and other ventures are included in the Other category of our segment results.

Competition

The reinsurance industry is highly competitive. We believe that our principal competitors in our Reinsurance segment include other companies active in the Bermuda market, including Ace Limited, Allied World Assurance Company, Arch Capital Group (‘‘Arch’’), Axis Capital Holdings, Endurance Specialty Holdings Ltd., Everest Re Group Ltd., IPC Holdings, Ltd., Montpelier Re Holdings, PartnerRe Ltd., Platinum and XL Capital Ltd. We also compete with certain Lloyd’s syndicates active in the London market, as well as with a number of other industry participants, such as American International Group, Inc. (‘‘AIG’’), Berkshire Hathaway (‘‘Berkshire’’), Munich Re Group and Swiss Re. As our business evolves over time we expect our competitors to change as well. Following hurricane Katrina in August 2005, a significant trend of new company formation focused in Bermuda commenced, which resulted in substantial new competition for 2006 and subsequent periods. Hedge funds have also shown increasing interest in entering the reinsurance market, either through the formation of reinsurance companies, or through the use of other financial products. Increased competition could cause, both on an industry-wide basis and for our book of business, a decrease in premium rates, less favorable policy terms, and a decrease in the percentage or absolute amount of attractive business we are able to write, the occurrence of any of which could adversely impact our growth and profitability.

Over the last several years capital markets participants, including exchanges and financial intermediaries, have developed financial products intended to compete with traditional reinsurance. Although the impact of these financial products to date has been limited, it could grow in the future. In addition, the tax policies of the countries where our clients operate as well as government sponsored or backed catastrophe funds can affect demand for reinsurance. We are unable to predict the extent to which the foregoing new, proposed or potential initiatives may affect the demand for our products or the risks which may be available for us when considering to offer coverage.

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Individual Risk Segment

Since 2003, we have significantly increased the amount of capital and resources devoted to our Individual Risk segment. Our gross premiums written in this segment have grown from $282.6 million in 2002 to $689.4 million in 2006.

We define our Individual Risk segment to include underwriting that involves understanding the characteristics of the original underlying insurance policy. Our Individual Risk segment is managed by the Chief Executive Officer of the Glencoe Group. Our Individual Risk operations seek on an opportunistic basis to identify and write classes of business which are attractively priced relative to the risk exposure and, particularly in the case of catastrophe-exposed risks, where our expertise in modeling, analytical tools and information systems may provide a competitive advantage.

The following table shows our Individual Risk gross premiums written by major type of business:

Year ended December 31,	2006	2005	2004
(in thousands)			
Individual Risk gross premiums written			
Commercial multi-line	$ 358,987	$ 316,553	$ 213,591
Commercial property	226,205	123,236	118,975
Personal lines property	104,200	211,641	145,526
Total Individual Risk gross premiums written	$ 689,392	$ 651,430	$ 478,092

Our Individual Risk business is written by the Glencoe Group through its operating subsidiaries Glencoe and Lantana, on an excess and surplus lines basis, and by Stonington and Stonington Lloyds Insurance Company (‘‘Stonington Lloyds’’), on an admitted basis. Our principal contracts include insurance contracts and quota share reinsurance with respect to risks including: 1) commercial multi-line, which includes commercial property and liability coverage, such as general liability, automobile liability and physical damage, building and contents, professional liability and various specialty products, and multi-peril crop insurance; 2) commercial property, which principally includes catastrophe-exposed commercial property products; and 3) personal lines property, which principally includes homeowners personal lines property coverage and catastrophe exposed personal lines property coverage.

Our Individual Risk business is produced primarily through three distribution channels:

1) Program managers – We write specialty lines 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 – We write quota share reinsurance with primary insurers who, similar to our program managers, provide most of the back-office functions. Business is written pursuant to agreed-upon guidelines; and
3) Broker-produced business – We write primary insurance produced through brokers on a risk-by-risk basis; underwriting and back office functions for this business are based in our offices in Bermuda while claims handling is outsourced.

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The following table shows the percentage of our Individual Risk gross premiums written by distribution channel:

Year ended December 31, (in thousands)	2006		2005		2004	
	Gross Premiums Written	Percentage of Gross Premiums Written	Gross Premiums Written	Percentage of Gross Premiums Written	Gross Premiums Written	Percentage of Gross Premiums Written
Individual Risk gross premiums written						
Program managers	$435,207	63.2%	$343,419	52.7%	$174,902	36.6%
Quota share reinsurance	238,066	34.5	273,734	42.0	243,294	50.9
Broker-produced business	16,119	2.3	34,277	5.3	59,896	12.5
Total Individual Risk gross premiums written	$689,392	100.0%	$651,430	100.0%	$478,092	100.0%

We seek to identify and do business with program managers and quota share reinsurance cedants whom we believe utilize superior underwriting methodologies. We rely on these third parties for services including policy issuance, premium collection, claims processing, and compliance with various state laws and regulations including licensing. We seek to work closely with these partners, attempting to employ our analytical methodologies and, where appropriate, our expertise in catastrophe risk, to arrive at adequate pricing for the risks being underwritten. We seek to structure these relationships to provide value to both parties and meaningful protections to us. Our strategy is to pursue a relatively small number of relatively large relationships.

We actively oversee our third-party relationships through an operations review team at Glencoe Group Services and through the use of our proprietary program analytical central repository, PACeR. The operations review team utilizes professionals in the disciplines of actuarial science, accounting, claims management, law, regulatory compliance and underwriting. This group assists with the initial due diligence as well as the ongoing monitoring of these third parties. The ongoing monitoring includes periodic audits of our program managers and third-party administrators. In addition, for our large program managers we maintain an employee in an underwriting capacity on-site at the program manager to oversee the program manager’s compliance with our prescribed underwriting guidelines. We generally seek to have contractual performance standards for each of our programs and third-party claims administrators whose compensation is subject to adjustment based on meeting these standards. The program operations team audits compliance with our underwriting guidelines and contractually agreed operating guidelines and performance standards. The program operations team actively works with our third parties to ensure corrective action is taken quickly to resolve issues identified during the audit process.

We operate through the Glencoe Group of companies, whose principal operating subsidiaries are Glencoe, Stonington, Lantana and Stonington Lloyds. Glencoe is a Bermuda-domiciled excess and surplus lines insurance company and is currently eligible to do business on an excess and surplus lines basis in 51 U.S. jurisdictions. Stonington, a Texas domiciled insurance company, is licensed on an admitted basis in all 50 states and the District of Columbia. Lantana is a Bermuda-domiciled insurance company currently eligible as an excess and surplus lines carrier in 49 U.S. jurisdictions.

Competition

In our Individual Risk business, we face competition from independent insurance companies, subsidiaries or affiliates of major worldwide companies and others, some of which have greater financial and other resources than we do. Primary insurers compete on the basis of various factors including distribution channels, product, price, service, financial strength and reputation. Many of our Reinsurance segment competitors listed above also compete for the program business and quota share reinsurance we write within our Individual Risk segment. We believe that our principal competitors in the program business of our Individual Risk segment include operating subsidiaries of AIG, Arch,

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WR Berkley Corp. (‘‘Berkley’’), Berkshire, Hannover Re and Zurich Financial Services Group (‘‘Zurich’’). In our Individual Risk business, we compete not only in respect of the insurance and reinsurance products we offer, but in respect of the contractual relationships with the program managers with whom we seek to partner. Increased competition in respect of our products could result in decreased premium rates, less attractive terms and conditions, and a decrease in our share of attractive programs. Increased competition in respect of our program manager partners, as to whom we are extremely selective and whose relationship we seek to tightly manage in a disciplined, consistent fashion, could result in less favorable terms and conditions in respect of our contractual arrangements with our partners, the loss of existing program manager relationships, or constrain our ability to add new relationships to our operations. Any of the foregoing could adversely impact the growth and profitability of our Individual Risk segment.

Other Activities

During the third quarter of 2006, we established a unit focused on weather-related activities, having as its principal operating companies Weather Predict, WP Consulting and RIM. Weather Predict and WP Consulting provide fee-based consulting services, sell weather-related information and forecasts, and engage in research and development activities, such as the RenaissanceRe Wall of Wind facility in southern Florida. RIM sells certain financial products primarily to address weather risks, and engages in certain derivatives trading activities. Through RIM, we expect that our participation in the trading markets for securities and derivatives linked to weather, other natural phenomena, or products or indices linked in part to such phenomena will increase. We do not currently expect the activities of this unit to impact materially our financial results in the near term. As this unit grows, we are seeking to develop client and customer relationships, build operating and control environment systems and procedures, hire staff and develop and install management information and other systems. We are also taking numerous other steps to implement our strategies. To a degree, success in executing our strategies in respect of this unit requires us to develop new expertise in certain areas. If we fail to continue to develop the necessary infrastructure, or otherwise fail to execute our strategy, our results from these new lines of business will likely suffer, perhaps substantially.

RATINGS

Financial strength ratings have become an increasingly important factor in respect of the competitive position of reinsurance and insurance companies. Rating organizations continually review the financial positions of reinsurers and insurers, including Renaissance Reinsurance, Top Layer, DaVinci and the Glencoe Group. Over the last five years, we have received high claims-paying and financial strength ratings from Standard & Poor’s Rating Agency (‘‘S&P’’), A.M. Best Co. (‘‘A.M. Best’’) and Moody’s. These ratings represent independent opinions of an insurer’s financial strength, operating performance and ability to meet policyholder obligations, and are not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold any of our securities.

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Presented below are the ratings of our principal operating subsidiaries and joint ventures by segment and the senior debt ratings of RenaissanceRe as of February 12, 2007. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources – Credit Ratings'' for information about recent ratings actions.

At February 12, 2007	S&P	A.M. Best	A.M. Best Financial Size Category	Moody's
REINSURANCE SEGMENT(1)				
Renaissance Reinsurance	A+	A	XIII	A2
DaVinci	A	A	X	—
Top Layer Re	AA	A+	VII	—
Renaissance Europe	—	A	XIII	—
INDIVIDUAL RISK SEGMENT(1)				
Glencoe	—	A–	X	—
Stonington	—	A–	X	—
Stonington Lloyds	—	A–	X	—
Lantana	—	A–	X	—
RENAISSANCERE(2)	A–	bbb+	—	Baa1

(1) The A.M. Best, S&P and Moody's ratings for the companies in the Reinsurance and Individual Risk segments reflect the insurer's financial strength rating (see explanation of the rating levels below).
(2) The S&P and Moody's ratings for RenaissanceRe represent the credit ratings on its senior unsecured debt.

S&P. The ''AA'' range (''AA+'', ''AA'', ''AA–''), which has been assigned by S&P to Top Layer Re, is the second highest rating assigned by S&P, and indicates that S&P believes the insurer's capacity to meet its financial commitment on the obligation is very strong, differing only slightly from those rated higher. The ''A'' range (''A+'', ''A'' and ''A–'') is the third highest of four ratings ranges within what S&P considers the ''secure'' category. An insurer rated ''A'' is believed by S&P to have strong financial security characteristics, but to be somewhat more likely to be affected by business conditions than are insurers with higher ratings.

A.M. Best. ''A+'' is the second highest designation of A.M. Best's sixteen rating levels. ''A+'' rated insurance companies are defined as ''Superior'' companies and are considered by A.M. Best to have a very strong ability to meet their obligations to policyholders. ''A'' and ''A–'' are the third and fourth highest designations, respectively, assigned by A.M. Best, representing A.M. Best's opinion that the insurer has an excellent ability to meet its ongoing obligations to policyholders.

A.M. Best also assigns a financial size category to each of the insurance companies rated. ''VII'' represents a company with \$50-\$100 million in capital, ''X'' represents a company with \$500-\$750 million in capital and ''XIII'' represents a company with \$1.25 – \$1.5 billion in capital.

Moody's. Moody's Insurance Financial Strength Ratings and Moody's Credit Ratings represent its opinions of the ability of insurance companies to repay punctually policyholder claims and obligations and senior unsecured debt instruments. Moody's believes that insurance companies rated A2, such as Renaissance Reinsurance, and companies rated Baa1, such as RenaissanceRe, offer good financial security. However, Moody's believes that elements may be present which suggest a susceptibility to impairment sometime in the future.

While the ratings of our principal operating subsidiaries and joint ventures within our Reinsurance segment remain among the highest in our business, adverse ratings actions could have a negative effect on our ability to fully realize current or future market opportunities. In addition, it is common

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for our reinsurance contracts to contain provisions permitting our clients to cancel coverage pro-rata if our relevant operating subsidiary is downgraded below a certain rating level. Whether a client would exercise this right would depend, among other factors, on the reason for such a downgrade, the extent of the downgrade, the prevailing market conditions and the pricing and availability of replacement reinsurance coverage. Therefore, in the event of a downgrade, it is not possible to predict in advance the extent to which this cancellation right would be exercised, if at all, or what effect such cancellations would have on the financial condition or future operations, but such effect potentially could be material. To date we are not aware that we have experienced such a cancellation. Our ratings are subject to periodic review and may be revised or revoked by the agencies which issue them.

UNDERWRITING AND RISK MANAGEMENT

Our primary underwriting goal is to construct a portfolio of reinsurance and insurance contracts and other financial risks that maximizes our return on shareholders' equity, subject to prudent risk constraints, and to generate long-term growth in tangible book value per common share plus accumulated dividends. We assess each new contract on the basis of the expected incremental return relative to the incremental contribution to portfolio risk.

Reinsurance

We have developed a proprietary, computer-based pricing and exposure management system, REMS©. REMS© was initially developed with consulting assistance from Tillinghast, an actuarial consulting unit of Towers, Perrin, Forster & Crosby, and Applied Insurance Research, Inc., the developer of the CATMAP™ system. Since inception, we have continued to invest in and improve REMS©, incorporating our underwriting experience, additional proprietary software and a significant amount of new industry data. 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. We combine the analyses generated by REMS© with other information available to us, including our own knowledge of the client submitting the proposed program, to assess the premium offered against the risk of loss which the program presents. We have licensed and integrated into REMS© a number of third-party catastrophe computer models in addition to our base model, which we use to validate and stress test our base REMS© results. REMS© is most developed in analyzing catastrophe risks. Our tools for assessing non-catastrophe risks are much less sophisticated and much less well developed than those for catastrophe risks. We are working to better develop our analytical techniques relating to non-catastrophe risks.

We believe that REMS© is a more robust underwriting and risk management system than is currently commercially available elsewhere in the reinsurance industry. Before we bind a reinsurance risk, a significant amount of exposure data is typically gathered from clients and this exposure data is input into the REMS© modeling system. The REMS© modeling system enables the Company to measure each policy on a consistent basis and provides the Company with a measurement of an appropriate price to charge for each policy based upon the risk that is assumed. REMS© combines computer-generated statistical simulations that estimate event probabilities with exposure and coverage information on each client's reinsurance contract to produce expected claims for reinsurance programs submitted to us. Our models employ simulation techniques to generate 40,000 years of activity, including events causing in excess of $300 billion in insured industry losses. From this simulation, we generate estimates of expected claims, expected profits and a probability distribution of potential outcomes for each program in our portfolio and for our total portfolio. REMS© allows us to score the contracts that we write by comparing the expected profit of a contract with the amount of capital that we allocate to the contract based on its marginal impact on the risk of our portfolio. We have also customized REMS© by including additional perils, risks and geographic areas that are not captured in the commercially available models.

We periodically review our catastrophe assumptions in REMS©. In the second half of 2005 we revised 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.

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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. In particular, we believe there has been an increase in the frequency and severity of hurricanes that have the potential to make landfall in the U.S., potentially as a result of decadal ocean water temperature cyclical trends, a longer-term trend towards global warming, or both or other factors. We started using these revised assumptions in REMS© to model and evaluate our portfolio of risk in the latter part of 2005. Recently, we introduced a further revised version of our internal models. These assumptions involve significant judgment on our part, and further experience or scientific research may lead us to further adjust these assumptions. Changes in our modeled assumptions may impact from time to time the amount of capacity we are prepared to offer.

Our catastrophe reinsurance underwriters use REMS© in their pricing decisions, which we believe provides them with several competitive advantages. These include the ability:

- to simulate a greater number of years of catastrophic event activity compared to a much smaller sample in generally available models, allowing us to analyze exposure to a greater number and combination of potential events;
- to analyze the incremental impact of an individual reinsurance contract on our overall portfolio;
- to better assess the underlying exposures associated with assumed retrocessional business;
- to price contracts within a short time frame;
- to capture various classes of risk, including catastrophe and other insurance risks;
- to assess risk across multiple entities (including our various joint ventures) and across different components of our capital structure; and
- to provide consistent pricing information.

As part of our risk management process, we also use REMS© to assist us with the purchase of reinsurance coverage for our own account.

We have developed underwriting guidelines, to be used in conjunction with REMS©, that seek to limit the exposure to claims from any single catastrophic event and the exposure to losses from a series of catastrophic events. As part of our pricing and underwriting process, we also assess a variety of other factors, including:

- the reputation of the proposed cedant and the likelihood of establishing a long-term relationship with the cedant;
- the geographic area in which the cedant does business and its market share;
- historical loss data for the cedant and, where available, for the industry as a whole in the relevant regions, in order to compare the cedant's historical catastrophe loss experience to industry averages;
- the cedant's pricing strategies; and
- the perceived financial strength of the cedant.

In order to define the risk profile of each line of specialty reinsurance, we establish probability distributions and assess the correlations with the rest of our portfolio. In lines with catastrophe risk, such as excess workers' compensation, we are leveraging directly off our skill in modeling for our property catastrophe reinsurance risks, and it is important to understand the correlations between these specialty lines and our catastrophe reinsurance portfolio. For other classes of business, which have little or no natural catastrophe exposure, and hence have significantly less correlation with our property catastrophe reinsurance coverages, probability distributions are derived from a variety of underlying information, including recent historical experience, but with the application of judgment as

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appropriate. The nature of some of these businesses lends itself less to the analysis that we use for our property catastrophe reinsurance coverages, reflecting both the nature of available exposure information, and the impact of human factors such as tort exposure. We produce probability distributions to represent our underlying risks, which we believe helps us to make consistent underwriting decisions and manage our total risk portfolio. Overall we undertake to construct conservative representations of the risks within our models, although there can be no assurance that this has occurred.

Individual Risk

For our catastrophe exposed business in our Individual Risk segment, we utilize proprietary modeling tools that have been developed in conjunction with the modeling and other resources utilized in our Reinsurance operations, as described above. We also combine these analyses with those of our Reinsurance segment to monitor our aggregate group catastrophic exposures. In general, we believe our techniques for evaluating catastrophe risk are better developed than those for other classes of risk.

For the business produced through program managers, we seek to carefully identify and evaluate potential program managers. When evaluating a potential new program manager, we consider numerous factors including: (i) whether the program manager can provide and help us analyze historic loss and other business data; (ii) whether the program manager will agree to accept a portion of their compensation based on the underwriting performance of their program and provide us with the other terms and conditions we require; (iii) our assessment of the integrity and experience of the program manager's management team; (iv) the potential profitability of the program to us; and (v) the availability of our internal resources to appropriately conduct due diligence, negotiate and execute transaction terms, and provide the ongoing monitoring we require. In considering pricing for the products to be offered by the program manager, we evaluate the expected frequency and severity of losses, the costs of providing the necessary coverage (including the cost of administering policy benefits, sales and other administrative and overhead costs), the necessity of third party reinsurance, the estimated costs thereof and an anticipated margin for profit.

In addition to utilizing REMS©, within our Individual Risk operations we have developed a proprietary program analytical repository, PACeR, within which we intend to maintain all of our program business. We are developing statistical and analytical techniques to help evaluate the lines of business we write within this segment and which over time we hope will create a competitive advantage. We believe that PACeR helps our clients better understand their business, thus creating value for them and us. For example, we believe that PACeR enables us to better identify and estimate the expected loss experience of particular products and is employed in the design of our products and the establishment of rates. We also seek to monitor pricing adequacy on our products by region, risk and producer. Subject to regulatory considerations, we seek to make timely premium and coverage modifications where we determine them to be appropriate.

We provide our program managers with written underwriting guidelines and monitor their compliance with our guidelines on a regular basis. Also, our contracts generally provide that a portion of the commission payable to our program managers will be on a retrospective basis, which is intended to permit us to adjust commissions based on our profitability and claims experience once an underwriting year is reasonably mature. We rely on our program managers to perform underwriting pursuant to these contractual guidelines, and believe we benefit from their superior local information and expertise in niche areas.

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GEOGRAPHIC BREAKDOWN

Our exposures are generally diversified across geographic zones, but are also a function of market conditions and opportunities. The following table sets forth the percentage of our gross insurance and reinsurance premiums written allocated to the territory of coverage exposure:

Year ended December 31, (in thousands)	2006		2005		2004	
	Gross Premiums Written	Percentage of Gross Premiums Written	Gross Premiums Written	Percentage of Gross Premiums Written	Gross Premiums Written	Percentage of Gross Premiums Written
Property catastrophe reinsurance						
United States and Caribbean	$ 792,311	40.8%	$ 458,193	25.4%	$ 338,315	21.9%
Europe	73,500	3.8	105,796	5.8	141,385	9.1
Worldwide (excluding U.S) (1)	71,116	3.7	59,076	3.3	63,529	4.1
Worldwide	68,575	3.5	54,493	3.0	90,607	5.9
Australia and New Zealand	2,732	0.1	33,266	1.8	28,614	1.9

Other	23,972	1.2	19,472	1.1	20,729	1.3
Specialty reinsurance (2)	222,049	11.4	427,402	23.6	382,886	24.8
Total reinsurance (3)	1,254,255	64.5	1,157,698	64.0	1,066,065	69.0
Individual Risk (4)	689,392	35.5	651,430	36.0	478,092	31.0
Total gross premiums written	$ 1,943,647	100.0%	$ 1,809,128	100.0%	$ 1,544,157	100.0%

(1)The category ''Worldwide (excluding U.S.)'' consists of contracts that cover more than one geographic region (other than the U.S.). The exposure in this category for gross premiums written to date is predominantly from Europe and Japan.
(2)The category Specialty reinsurance consists of contracts that are predominantly exposed to U.S. and worldwide risks.
(3)Excludes $66.9 million, $45.3 million and $18.8 million of premium assumed from our Individual Risk segment in 2006, 2005 and 2004, respectively.
(4)The category Individual Risk consists of contracts that are primarily exposed to U.S. risks.

RESERVES FOR CLAIMS AND CLAIM EXPENSES

Claims and claim expense reserves represent estimates, including actuarial and statistical projections at a given point in time, of the ultimate settlement and administration costs for unpaid claims and claim expenses arising from the insurance and reinsurance contracts we sell. We establish our claims and claim expense reserves by taking claims reported to us by insureds and ceding companies, but which have not yet been paid (''case reserves''), adding the costs for additional case reserves (''additional case reserves'') which represent our estimates for claims previously reported to us which we believe may not be adequately reserved as of that date, and adding estimates for the anticipated cost of claims incurred but not yet reported to us (''IBNR'').

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The following table summarizes our claims and claim expense reserves by line of business and split between case reserves, additional case reserves and IBNR at December 31, 2006 and 2005:

At December 31, 2006	Case Reserves	Additional Case Reserves	IBNR	Total
(in thousands)				
Property catastrophe reinsurance	$ 366,337	$ 282,544	$ 226,579	$ 875,460
Specialty reinsurance	104,010	77,315	412,466	593,791
Total Reinsurance	470,347	359,859	639,045	1,469,251
Individual Risk	272,119	15,611	341,174	628,904
Total	$ 742,466	$ 375,470	$ 980,219	$ 2,098,155
At December 31, 2005				
(in thousands)				
Property catastrophe reinsurance	$ 544,750	$ 576,992	$ 207,087	$ 1,328,829
Specialty reinsurance	180,868	95,312	414,445	690,625
Total Reinsurance	725,618	672,304	621,532	2,019,454
Individual Risk	194,016	—	401,081	595,097

Total	$ 919,634	$ 672,304	$ 1,022,613	$ 2,614,551

The decrease in the total amount of claims and claim expense reserves from December 31, 2005 to December 31, 2006, as shown in the table above, was principally a result of the payment of claims in respect of prior year losses, in particular the large hurricanes of 2004 and 2005.

Our estimates of claims and claim expense reserves are not precise in that, among other matters, they are based on predictions of future developments and estimates of future trends and other variable factors. Some, but not all, of our reserves are further subject to the uncertainty inherent in actuarial methodologies and estimates. Because a reserve estimate is simply an insurer's estimate at a point in time of its ultimate liability, and because there are numerous factors which affect reserves and claims payments but cannot be determined with certainty in advance, our ultimate payments will vary, perhaps materially, from our estimates of reserves. If we determine in a subsequent period that adjustments to our previously established reserves are appropriate, such adjustments are recorded in the period in which they are identified. During the twelve months ended December 31, 2006, 2005 and 2004, changes to prior year estimated claims reserves increased our net income by $136.6 million, reduced our net loss by $241.5 million and increased our net income by $140.3 million, respectively.

A 10% change to our reserves at December 31, 2006 would equate to a $209.8 million adjustment to net claims and claim expenses incurred, which represents 27.5% of our net income available to common shareholders for the year ended December 31, 2006, and 6.4% of shareholders' equity at December 31, 2006. During 2007, we intend to develop an analytical approach to quantifying reasonably likely changes to the variability of our key reserving assumptions embedded in our reserving estimation techniques. We will include the results of this analysis in our Annual Report on Form 10-K for the year ended December 31, 2007.

Our reserving methodology for each line of business uses a loss reserving process that calculates a point estimate for the Company's ultimate settlement and administration costs for claims and claim expenses. We do not calculate a range of estimates. We use this point estimate, along with paid claims and case reserves, to record our best estimate of additional case reserves and IBNR in our financial statements. Under GAAP, we are not permitted to establish estimates for catastrophe claims and claim expense reserves until an event occurs that gives rise to a loss.

Our claims and claim expense reserves are reviewed annually by an independent actuarial firm. The actuarial firm performs this work for the purpose of issuing an actuarial opinion on the reasonableness of the claims and claim expense reserves for each of the Company's insurance subsidiaries. The

actuarial opinions are required to meet various insurance regulatory requirements. The actuarial firm discusses its conclusions with management and presents its findings to the Audit Committee of our Board of Directors of the Company. Although we do not explicitly rely on the work performed by the actuarial firm for estimating our reserves for claims and claim expenses, we compare our recorded claims and claim expense reserves to those estimated by the actuarial firm to determine whether our estimates are within the actuarial firm's reasonable range of estimates. To date, our estimates of claims and claim expense reserves have been within the actuarial firm's reasonable range of estimates.

Reserving for our reinsurance claims involves other uncertainties, such as the dependence on information from ceding companies, which among other matters, includes the time lag inherent in reporting information from the primary insurer to us or to our ceding companies 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 claims and case reserves. We sometimes also receive an estimate or provision for IBNR. This information is often updated and adjusted from time-to-time during the loss settlement period as new data or facts in respect of initial claims, client accounts, industry or event trends may be reported or emerge in addition to changes in applicable statutory and case laws.

During 2005, we incurred significant losses from hurricanes Katrina, Rita and Wilma. 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, our loss estimates. Our actual losses from these events will likely vary, perhaps materially, from our current estimates due to the inherent uncertainties in reserving for such losses, 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, and complex coverage and other legal issues.

Because of the inherent uncertainties discussed above, we have developed a reserving philosophy which attempts to incorporate prudent assumptions and estimates, and we have generally experienced favorable development on prior year reserves in the last several years. However, there is no assurance that this will occur in future periods.

Our reserving techniques, assumptions and processes differ between our Reinsurance and Individual Risk segments, as well as between our property catastrophe reinsurance and specialty reinsurance businesses within our Reinsurance segment. Refer to our ‘‘Claims and Claim Expense Reserves Critical Accounting Estimates’’ discussion in ‘‘Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations’’ for more information on the risks we insure and reinsure, the reserving techniques, assumptions and processes we follow to estimate our claims and claim expense reserves, and our current estimates versus our initial estimates of our claims reserves, for each of these units.

The following table represents the development of our U.S. generally accepted accounting principles (‘‘GAAP’’) balance sheet reserves for 1996 through December 31, 2006. This table does not present accident or policy year development data. The top line of the table shows the gross reserves for claims and claim expenses at the balance sheet date for each of the indicated years. This represents the estimated amounts of claims and claim expenses arising in the current year and all prior years that are unpaid at the balance sheet date, including additional case reserves and IBNR reserves. The table also shows the re-estimated amount of the previously recorded reserves based on experience as of the end of each succeeding year. The estimate changes as more information becomes known about the frequency and severity of claims for individual years. The ‘‘cumulative redundancy (deficiency) on net reserves’’ represents the aggregate change to date from the indicated estimate of the gross reserve for claims and claim expenses, net of losses recoverable on the second line of the table. The table also shows the cumulative net paid amounts as of successive years with respect to the net reserve liability.

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At the bottom of the table is a reconciliation of the gross reserve for claims and claim expenses to the net reserve for claims and claim expenses, the gross re-estimated liability to the net re-estimated liability for claims and claim expenses, and the cumulative redundancy (deficiency) on gross reserves.

With respect to the information in the table below, it should be noted that each amount includes the effects of all changes in amounts for prior periods, including the effect of foreign exchange rates.

Years ended December 31, (in millions)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Gross reserve for claims and claim expenses	$105.4	$110.0	$298.8	$478.6	$403.6	$572.9	$804.8	$977.9	$1,459.4	$2,614.6
Reserve for claims and claim expenses, net of losses recoverable	$105.4	$110.0	$197.5	$174.9	$237.0	$355.3	$605.3	$828.7	$1,241.6	$1,941.4
1 Year Later	105.4	95.1	149.5	196.8	221.0	378.3	511.6	688.4	1,000.2	1,804.8
2 Years Later	109.4	61.8	149.9	168.4	168.4	344.7	470.5	403.5	963.6	—
3 Years Later	87.3	58.2	141.3	121.7	138.6	308.0	294.4	384.6	—	—
4 Years Later	90.0	56.8	118.6	111.1	107.7	214.1	282.1	—	—	—
5 Years Later	89.5	51.1	117.8	81.9	54.4	209.2	—	—	—	—
6 Years Later	83.8	48.2	111.4	38.7	52.3	—	—	—	—	—
7 Years Later	81.9	45.6	99.0	36.8	—	—	—	—	—	—
8 Years Later	80.1	37.0	97.1	—	—	—	—	—	—	—
9 Years Later	72.4	35.8	—	—	—	—	—	—	—	—
10 Years Later	71.2	—	—	—	—	—	—	—	—	—
Cumulative redundancy (deficiency) on net reserves	$ 34.2	$ 74.2	$100.4	$138.1	$184.7	$146.1	$323.2	$444.1	$ 278.0	$ 136.6
Cumulative Net Paid Losses										
1 Year Later	$ 40.7	$ 16.9	$ 54.8	$ 24.6	$ 11.1	$ 88.1	$ 81.9	$ 64.1	$ 338.9	$ 452.0
2 Years Later	54.7	24.7	80.1	16.0	0.3	152.0	90.2	119.1	437.2	—
3 Years Later	60.6	28.4	69.6	1.2	3.2	111.6	122.6	134.0	—	—
4 Years Later	64.1	29.8	69.1	2.7	(7.9)	128.0	101.6	—	—	—
5 Years Later	65.3	31.0	69.5	(9.0)	(0.6)	107.0	—	—	—	—
6 Years Later	66.3	31.9	72.5	3.3	2.6	—	—	—	—	—
7 Years Later	67.1	32.3	78.4	4.7	—	—	—	—	—	—
8 Years Later	67.4	31.8	78.5	—	—	—	—	—	—	—
9 Years Later	67.0	31.9	—	—	—	—	—	—	—	—
10 Years Later	67.1	—	—	—	—	—	—	—	—	—
Gross reserve for claims and claim expenses	$105.4	$110.0	$298.8	$478.6	$403.6	$572.9	$804.8	$977.9	$1,459.4	$2,614.6
Reinsurance recoverable on unpaid losses	—	—	101.3	303.7	166.6	217.6	199.5	149.2	217.8	673.2
Net reserve for claims and claim expenses	$105.4	$110.0	$197.5	$174.9	$237.0	$355.3	$605.3	$828.7	$1,241.6	$1,941.4
Gross liability re-estimated	$ 71.2	$ 35.8	$290.0	$390.9	$243.9	$396.0	$457.5	$536.2	$1,182.7	$2,449.7
Reinsurance recoverable on unpaid losses re-estimated	—	—	192.9	354.1	191.6	186.8	175.4	151.6	219.1	644.9
	$ 71.2	$ 35.8	$ 97.1	$ 36.8	$ 52.3	$209.2	$282.1	$384.6	$ 963.6	$1,804.8
Cumulative redundancy (deficiency) on gross reserves	$ 34.2	$ 74.2	$ 8.9	$ 87.7	$159.7	$176.9	$347.3	$441.7	$ 276.7	$ 164.8

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The following table presents an analysis of our paid, unpaid and incurred losses and loss expenses and a reconciliation of beginning and ending reserves for claims and claims expenses for the years indicated:

Year ended December 31,	2006	2005	2004
(in thousands)			
Net reserves as of January 1	$ 1,941,361	$ 1,241,610	$ 828,691
Net incurred related to:			
Current year	582,788	1,877,118	1,236,565
Prior years	(136,558)	(241,462)	(140,266)
Total net incurred	446,230	1,635,656	1,096,299
Net paid related to:			
Current year	139,268	596,997	619,239
Prior years	452,022	338,908	64,141
Total net paid	591,290	935,905	683,380
Total net reserves as of December 31	1,796,301	1,941,361	1,241,610
Losses recoverable as of December 31	301,854	673,190	217,788
Total gross reserves as of December 31	$ 2,098,155	$ 2,614,551	$ 1,459,398

At December 31, 2006, the prior year favorable development of $136.6 million included $125.2 million attributable to our Reinsurance segment and $11.3 million attributable to our Individual Risk segment. The reduction in prior years' estimated ultimate claims reserves in our Reinsurance segment was primarily due to lower than expected claims emergence within our specialty reinsurance unit. Our specialty reinsurance unit experienced $139.2 million of favorable development in 2006 while our catastrophe reinsurance unit experienced $13.9 million of adverse development. The reductions in our reserves for our specialty reinsurance unit and Individual Risk segment were principally driven by the application of our formulaic reserving methodology used for these books of business with the reductions being due to actual paid and reported loss activity being better than what was anticipated when setting the initial IBNR reserves. In addition, within our specialty reinsurance unit, $46.0 million of the favorable development was driven by a reduction in carried reserves due to commutations. The adverse development in our catastrophe reinsurance unit was principally driven by an increase in our ultimate losses for a U.K. industrial property loss. This loss occurred at the end of 2005 and both the estimate of insured industry losses for this event and our estimate of our client's losses from this event increased in 2006.

At December 31, 2005, the prior year favorable development of $241.5 million included $231.4 million attributable to our Reinsurance segment and $10.1 million attributable to our Individual Risk segment. The reduction in prior years' estimated ultimate claims reserves was primarily due to the Reinsurance and Individual Risk reserve reviews we undertook during 2005, which produced a reduction of $248.1 million in the Reinsurance segment and $1.1 million in the Individual Risk segment. Within the Reinsurance segment, our property catastrophe portfolio experienced a $118.2 million reduction in prior year reserves as a result of the reserve review. This reduction reflected a reassessment of our reserves for claims and claim expenses in light of historical paid loss trends and reported loss activity for the 1994 to 2004 accident years. For the specialty reinsurance business, the $129.9 million reduction in prior year reserves was principally due to a reassessment of our estimated loss reporting patterns. Since establishing the specialty reinsurance business unit in 2002, reported claim activity has been less than expected and therefore, the

Company adjusted its

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estimated loss reporting patterns in 2005 to reflect this experience. The changes within the Individual Risk segment as a result of the reserve review were insignificant.

At December 31, 2004, the prior year favorable reserve development of $140.3 million included $113.9 million attributable to our Reinsurance segment and $26.4 million attributable to our Individual Risk segment. The reduction in prior years' estimated ultimate claims reserves in our Reinsurance segment was primarily due to a re-estimation of our ultimate losses associated with six large catastrophe events, which produced a reduction of approximately $31.3 million, a $23.0 million reduction in reserves from numerous smaller catastrophe events and $46.6 million in reductions from our specialty reinsurance book of business. The reductions in our reserves for the smaller catastrophe events, the reduction in reserves for our specialty reinsurance book of business and the reserves for our Individual Risk segment were driven by the application of our formulaic methodology used for these books of business with the reductions being due to actual paid and reported loss activity being better than what we anticipated when setting the initial IBNR reserves.

Net claims and claim expenses incurred were reduced by $5.5 million during 2006 (2005 – $4.7 million, 2004 – $0.8 million) related to income earned on assumed reinsurance contracts that were classified as deposit contracts with underwriting risk only. Other income was decreased by $1.0 million during 2006 (2005 – increased by $1.3 million, 2004 – reduced by $1.2 million) related to premiums and losses incurred on assumed reinsurance contracts that were classified as deposit contracts with timing risk only. Aggregate liabilities of $104.4 million are included in reinsurance balances payable at December 31, 2006 (2005 – $129.3 million) and aggregate assets of $nil are included in other assets at December 31, 2006 (2005 – $6.5 million) associated with these contracts.

INVESTMENTS

The table below summarizes our portfolio of invested assets:

At December 31,	2006	2005
(in thousands)		
Fixed maturity investments available for sale, at fair value		
U.S. treasuries and agencies	$ 1,180,064	$ 1,040,432
Non-U.S. government	154,848	127,961
Corporate	995,410	554,666
Mortgage-backed	397,741	739,053
Asset-backed	383,867	410,182
Subtotal	3,111,930	2,872,294
Short term investments, at cost	2,410,971	1,653,618
Other investments, at fair value	592,829	586,467
Total managed investment portfolio	6,115,730	5,112,379
Investments in other ventures, under equity method	227,075	178,774
Total investments	$ 6,342,805	$ 5,291,153

At December 31, 2006, we held investments totaling $6.3 billion, compared to $5.3 billion at December 31, 2005, with net unrealized appreciation included in accumulated other comprehensive income of $25.2 million at December 31, 2006, compared to $4.8 million at December 31, 2005. Our investment guidelines, which are approved by our Board, stress preservation of capital, market liquidity, and diversification of risk. Notwithstanding the foregoing, our investments are subject to market-wide risks and fluctuations, as well as to risks inherent in particular securities.

The large majority of our investments consist of highly rated fixed income securities. We also have an allocation to other investments, including hedge funds, private equity partnerships and other

investments. At December 31, 2006, these other investments totaled $592.8 million or 9.3% (2005 – $586.5 million or 11.0%) of our total investments.

At December 31, 2006, our fixed maturities available for sale and short term investment portfolio had a dollar-weighted average credit quality rating of AA (2005 – AA). At December 31, 2006, our average yield to maturity on our fixed maturity investments available for sale and our short term investment portfolio was 5.3% (2005 – 4.6%), before investment expenses. At December 31, 2006, our non-investment grade fixed maturity investments available for sale totaled $77.9 million or 2.5% of our fixed maturity investments available for sale, and at December 31, 2005 our non-investment grade fixed maturity investments available for sale totaled $70.1 million or 2.4% of our total fixed maturity investments available for sale. In addition, within our other investments category we have several funds that invest in non-investment grade fixed income securities. At December 31, 2006, the funds that invest in non-investment grade fixed income securities totaled $113.3 million compared to $141.3 million at December 31, 2005.

We also hold a significant amount of short term investments. Short term investments are managed as part of our investment portfolio and have a maturity of one year or less when purchased. Short term investments are carried at cost which approximates fair value. At December 31, 2006, we had $2,411.0 million of short term investments compared to $1,653.6 million as of December 31, 2005.

Our target benchmark portfolio for our fixed maturities and short term investments currently has a 3 year duration. Our duration at December 31, 2006 was 1.3 years (2005 – 1.4 years), reflecting our view that the current level of rates affords inadequate compensation for the assumption of additional interest rate risk associated with longer duration. From time to time, we may reevaluate the duration of our portfolio in light of the duration of our liabilities and market conditions.

As with other fixed income investments, the value of our fixed maturity investments will fluctuate with changes in the interest rate environment and when changes occur in the overall investment market and in overall economic conditions. Additionally, our differing asset classes expose us to other risks which could cause a reduction in the value of our investments. Examples of some of these risks include:

- Changes in the overall interest rate environment can expose us to ‘‘prepayment risk’’ on our mortgage-backed investments. When interest rates decline, consumers will generally make prepayments on their mortgages and, as a result, our investments in mortgage-backed securities will be repaid to us more quickly than we might have originally anticipated. When we receive these prepayments, our opportunities to reinvest these proceeds back into the investment markets will likely be at reduced interest rates. Conversely, when interest rates increase, consumers will generally make fewer prepayments on their mortgages and, as a result, our investments in mortgage-backed securities will be repaid to us less quickly than we might have originally anticipated. This will increase the duration of our portfolio, which is disadvantageous to us in a rising interest rate environment.

- Our investments in mortgage-backed securities are also subject to default risk. This risk is due in part to defaults on the underlying securitized mortgages, which would decrease the market value of the investment and be disadvantageous to us.
- Our investments in debt securities of other corporations are exposed to losses from insolvencies of these corporations, and our investment portfolio can also deteriorate based on reduced credit quality of these corporations.
- Our investments in asset-backed securities are subject to prepayment risks, as noted above, and to the structural risks of these securities. The structural risks primarily emanate from the priority of each security in the issuer’s overall capital structure.
- Within our other investments category, we have several funds that invest in non-investment grade fixed income securities as well as securities denominated in foreign currencies. These investments expose us to losses from insolvencies and other credit related issues. We are also exposed to fluctuations in foreign exchange rates that may result in realized losses to us if our exposures are not hedged or if our hedging strategies are not effective.

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The fair value of certain of our other investments is generally established on the basis of the net valuation criteria established by the managers of such investments, if applicable. These net valuations are determined based upon the valuation criteria established by the governing documents of such investments. Such valuations may differ significantly from the values that would have been used had ready markets existed for the shares, partnership interests or notes. Many of the investments are subject to restrictions on redemptions and sale which are determined by the governing documents and limit our ability to liquidate these investments in the short term. Due to a lag in the valuations reported by the fund managers, the majority of our hedge fund and private equity partnership valuations are reported on a one month or one quarter lag. Our estimates of the fair value of catastrophe bonds are based on quoted market prices, or when such prices are not available, by reference to broker or underwriter bid indications. Interest income, income distributions and realized and unrealized gains and losses on other investments are included in net investment income and totaled $65.7 million (2005 – $59.3 million, 2004 – $46.9 million) of which $30.1 million (2005 – $28.8 million, 2004 – $24.4 million) was related to net unrealized gains.

We have committed capital to private equity partnerships of $340.2 million, of which $209.6 million has been contributed at December 31, 2006.

Investments in Other Ventures, under Equity Method

Investments in other ventures, under equity method includes our investment in Channel Re of $160.9 million (2005 – $142.1 million). We invested $119.7 million in 2004, representing a 32.7% ownership interest in Channel Re. Investments in other ventures, under equity method also includes an investment in Top Layer Re of $26.6 million (2005 – $26.3 million) and in Tower Hill Holdings Inc. (‘‘Tower Hill’’) of $11.0 million (2005 – $10.3 million). We originally invested $13.1 million and $10.0 million in Top Layer Re and Tower Hill, respectively, representing a

50.0% and 28.6% ownership, respectively. The equity in the earnings of Tower Hill and Channel Re are reported one quarter in arrears. Investments in other ventures, under equity method also includes an investment in Starbound of $28.6 million. We initially invested $7.5 million in Starbound in May 2006, and in December 2006, we purchased additional shares from existing shareholders of Starbound for consideration of $21.3 million, representing a 17.8% ownership interest at December 31, 2006. In addition, $2.3 million of other intangible assets generated upon the purchase of the additional shares of Starbound are included in other assets. Our investments in other ventures are considered illiquid in nature.

RIHL

Our investments include an interest in RIHL. RIHL was formed to enhance administrative efficiency and take advantage of the increased benefits and reduced costs ordinarily associated with the management of large investment portfolios of different subsidiaries in the same group. In addition, the administrative efficiency afforded by the use of RIHL facilitates the establishment of our collateralized letter of credit facility on advantageous terms that we believe would otherwise not be available. Through RIHL, certain of our operating subsidiaries invest in a diversified portfolio of highly liquid debt securities which are recorded at fair value. RIHL has been assigned a rating of AAAf/S2 by S&P and 100% of the securities held through RIHL have been assigned a rating of AA or higher by S&P. We may redeem our interests in RIHL at the current net asset value no more frequently than monthly. Mellon Bank, NA, provides custodial functions in respect of RIHL, including valuation of the investment assets held through RIHL. Currently, an external investment manager manages the assets held through RIHL, pursuant to written investment guidelines.

Under the terms of certain reinsurance contracts, certain of our subsidiaries and joint ventures are required to provide letters of credit to reinsureds in respect of reported claims and/or unearned premiums. As described below under ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations – Summary of Results of Operations for 2006, 2005 and 2004 – Capital Resources,’’ we maintain a facility which, as of December 31, 2006, makes available to our operating subsidiaries and joint ventures letters of credit having an aggregate face amount not to exceed

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$1.725 billion. To support the facility, our participating operating subsidiaries and joint ventures have pledged RIHL shares and other securities owned by them as collateral. At February 12, 2007, we had $1.149 billion of letters of credit with effective dates on or before December 31, 2006 outstanding under our $1.725 billion credit facility and total letters of credit outstanding under all facilities was $1.187 billion.

See ‘‘Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations’’ for additional disclosures regarding our investments.

MARKETING

Reinsurance

We believe that our modeling and technical expertise, and the risk management advice that we provide to our clients, has enabled us to become a provider of first choice in many lines of business to our customers worldwide. We market our Reinsurance products worldwide exclusively through reinsurance brokers and we focus our marketing efforts on targeted brokers. We believe that our existing portfolio of business is a valuable asset and, therefore, we attempt to continually strengthen relationships with our existing brokers and clients. We target prospects that are capable of supplying detailed and accurate underwriting data and that potentially add further diversification to our book of business.

We believe that primary insurers' and brokers' willingness to use a particular reinsurer is based not just on pricing, but also on the financial security of the reinsurer, its claim paying ability ratings and demonstrated willingness to pay valid claims, the quality of a reinsurer's service, the reinsurer's willingness to design customized programs, its long-term stability and its commitment to provide reinsurance capacity. We believe we have established a reputation with our brokers and clients for prompt response on underwriting submissions, fast claims payments and a reputation for providing creative solutions to our customers' needs. Since we selectively write large lines on a limited number of property catastrophe reinsurance contracts, we can establish reinsurance terms and conditions on those contracts that are attractive in our judgment, make large commitments to the most attractive programs and provide superior client responsiveness. We believe that our ability to design customized programs and to provide advice on catastrophe risk management has helped us to develop long-term relationships with brokers and clients.

Our reinsurance brokers assess client needs and perform data collection, contract preparation and other administrative tasks, enabling us to market our reinsurance products cost effectively by maintaining a smaller staff. We believe that by maintaining close relationships with brokers, we are able to obtain access to a broad range of potential reinsureds. In recent years, our distribution has become increasingly reliant on a small number of such relationships. We expect this concentration to continue and perhaps increase. The following table shows the percentage of our Reinsurance segment gross premiums written generated through our largest brokers for the years ended December 31, 2006, 2005 and 2004:

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Year ended December 31,	2006	2005	2004
Percentage of gross premiums written			
Benfield Group Limited	40.6%	35.8%	25.1%
Marsh Inc.	25.4	26.1	27.2
Willis Group	14.3	17.4	17.2
AON Corporation	9.8	10.1	12.7
Total of four largest brokers	90.1	89.4	82.2
All others	9.9	10.6	17.8
Total percentage of gross premiums written	100.0%	100.0%	100.0%

During 2006, our Reinsurance segment issued authorization for coverage on programs submitted by 41 brokers worldwide (2005 – 43 brokers). We received approximately 2,100 program submissions during 2006 (2005 – approximately 1,860). Of these submissions, we issued authorizations for coverage for approximately 750 programs, or approximately 36% of the program submissions received (2005 – approximately 640 programs, or approximately 34%).

Individual Risk

Our Individual Risk business is produced primarily through three distribution channels as per the table below:

Year ended December 31,	2006	2005	2004
Individual Risk gross premiums written			
Program managers	63.2%	52.7%	36.6%
Quota share reinsurance	34.5	42.0	50.9
Broker-produced business	2.3	5.3	12.5
Total Individual Risk gross premiums written	100.0%	100.0%	100.0%

The business produced through program managers, quota share reinsurance and broker-produced business principally comes to us through intermediaries. Our financial security ratings, combined with our reputation in the reinsurance marketplace, including the long-standing relationships we have developed with our reinsurance intermediaries, have enhanced our presence in our Individual Risk markets.

With respect to our program business, we believe that our strategy of establishing strong relationships and assisting our partners with modeling, risk analysis and other expertise is helping us to develop a favorable reputation in this market. We believe that our existing program managers are an important source of referrals and endorsements of our approach to this business.

Our broker-produced business is principally business written on an excess and surplus lines basis by Glencoe and Lantana on a risk-by-risk basis. This business is generally submitted to us through licensed surplus lines brokers who are generally responsible for regulatory compliance, premium tax collection and certain other matters associated with policy placement.

EMPLOYEES

At February 12, 2007, we and our subsidiaries employed 218 people worldwide. We believe that our strong employee relations are among our most significant strengths. None of our employees are subject to collective bargaining agreements. We are not aware of any current efforts to implement such agreements at any of our subsidiaries.

A majority of our employees and all of our officers and directors receive some form of equity-based incentive compensation as part of their overall compensation package. At February 12, 2007, our

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directors and executive officers beneficially owned approximately 4.5% of our outstanding common shares. In addition, all of our directors and executive officers are subject to equity ownership guidelines that encourage each to hold a specified amount of equity.

Many of our Bermuda-based employees, including a majority of our senior executives, are employed pursuant to work permits granted by the Bermuda authorities. These permits expire at various times over the next few years. Bermuda government policy limits the duration of work permits to a total of six years, which is subject to certain exemptions for key employees.

All of our senior executives and a majority of our other officers are subject to employment agreements providing for, among other things, confidentiality, non-solicitation and non-competition obligations on the part of the executives and provisions relating to our indemnification and severance obligations.

INFORMATION TECHNOLOGY

Our information technology infrastructure is important to our business. Our information technology platform, supported by a team of professionals, is currently principally located in our corporate headquarters and principal corporate offices in Bermuda. Additional information technology assets are maintained at the office locations of our operating subsidiaries. We have implemented backup procedures that seek to ensure that our key business systems and data are backed up, generally on a daily basis, and can be restored promptly if and as needed. In addition, we generally store backup information at off-site locations, in order to seek to minimize our risk of loss of key data in the event of a disaster.

We have implemented and periodically test our disaster recovery plans with respect to our information technology infrastructure. Among other things, our recovery plans involve arrangements with off-site, secure data centers in alternative locations. We believe we will be able to access our systems from these facilities in the event that our primary systems are unavailable due to a scenario such as a natural disaster.

REGULATION

Bermuda Regulation

Registration.   The Insurance Act 1978, as amended, and Related Regulations (the ‘‘Insurance Act’’), which regulates the business of our Bermuda insurance subsidiaries, provides that no person may carry on an insurance business (including the business of reinsurance) in or from within Bermuda unless registered as an insurer under the Insurance Act by the Bermuda Monetary Authority (the ‘‘BMA’’). As a holding company, RenaissanceRe is not subject to Bermuda insurance law and regulations. However, as discussed in detail below, the Insurance Act and related regulations thereof regulate the insurance business of most of our operating insurance companies. Renaissance Reinsurance and DaVinci are registered as Class 4 insurers, and Glencoe, Lantana, Tim Re, Starbound Re and Top Layer Re are registered as Class 3 insurers under the Insurance Act. The BMA, in deciding whether to grant registration, has broad discretion to act as it thinks fit in the public interest. The BMA is required by the Insurance Act to determine whether the applicant is a fit and proper body to be engaged in the insurance business and, in particular, whether it has, or has available to it, adequate knowledge and expertise. In connection with the applicant’s registration, the BMA may impose conditions relating to the writing of certain types of insurance. Further, the Insurance Act stipulates that no person shall, in or from within Bermuda, act as an insurance manager, broker, agent or salesman unless registered for the purpose by the BMA. The Insurance Act also grants to the BMA powers to supervise, investigate and intervene in the affairs of insurance companies. Ventures is registered as an insurance manager under the Insurance Act.

The Insurance Act imposes on Bermuda insurance companies certain solvency and liquidity standards and auditing and reporting requirements. The Insurance Act also grants the BMA powers to supervise, investigate and intervene in the affairs of insurance companies. Certain significant aspects of the Bermuda insurance regulatory framework are set forth below.

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Cancellation of Insurer’s Registration.   An insurer’s registration may be canceled by the BMA on certain grounds specified in the Insurance Act, including failure of the insurer to comply with a requirement made of it under the Insurance Act or if, in the opinion of the BMA, after consultation with the Insurance Advisory Committee, the insurer has not been carrying on business in accordance with sound insurance principles.

Independent Approved Auditor. Every registered insurer must appoint an independent auditor who will annually audit and report on the Statutory Financial Statements and the Statutory Financial Return of the insurer, both of which, in the case of each of a Class 3 insurer and a Class 4 insurer, are required to be filed annually with the BMA. The auditor must be approved by the BMA as the independent auditor of the insurer. If the insurer fails to appoint an approved auditor or at any time fails to fill a vacancy for such auditor, the BMA may appoint an approved auditor for the insurer and shall fix the remuneration to be paid to the approved auditor within fourteen days, if not agreed sooner by the insurer and the auditor. The approved auditor may be the same person or firm which audits the insurer's financial statements and reports for presentation to its shareholders.

Loss Reserve Specialist. Each Class 3 and Class 4 insurer is required to submit an annual loss reserve opinion on the adequacy of the loss and loss expense provisions reflected in an insurer's Statutory Financial Statements and Statutory Financial Return and other matters required by the BMA when filing the Annual Statutory Financial Return. This opinion must be issued by the insurer's approved Loss Reserve Specialist. The Loss Reserve Specialist, who will normally be a qualified casualty actuary, must be approved by the BMA.

Statutory Financial Statements. An insurer must prepare Annual Statutory Financial Statements. The Insurance Act prescribes rules for the preparation and substance of such Statutory Financial Statements (which include, in statutory form, a balance sheet, income statement, and a statement of capital and surplus, and detailed notes thereto). The insurer is required to give detailed information and analyses regarding premiums, claims, reinsurance and investments. The Statutory Financial Statements are not prepared in accordance with GAAP and are distinct from the financial statements prepared for presentation to the insurer's shareholders under the Companies Act 1981 of Bermuda, as amended (the ''Companies Act''), which financial statements may be prepared in accordance with GAAP. The insurer is required to submit the Annual Statutory Financial Statements as part of the Annual Statutory Financial Return. The Statutory Financial Statements and the Statutory Financial Return do not form part of the public records maintained by the BMA.

Minimum Solvency Margin and Restrictions on Dividends and Distributions. The Insurance Act provides that the statutory assets of an insurer must exceed its statutory liabilities by an amount greater than the prescribed minimum solvency margin which varies with the type of registration of the insurer under the Insurance Act and the insurer's net premiums written and loss reserve level. The minimum solvency margin for a Class 4 insurer with respect to its general business is the greatest of $100.0 million, 50% of net premiums written (with a credit for reinsurance ceded not exceeding 25% of gross premiums) and 15% of loss and loss expense provisions and other insurance reserves. The minimum solvency margin for a Class 3 insurer with respect to its general business is the greater of $1.0 million or 20% of the first $6.0 million of net premiums written; if in excess of $6.0 million, the figure shall be $1.2 million plus 15% of net premiums written in excess of $6.0 million.

The Insurance Act mandates certain actions and filings with the BMA if a Class 3 insurer or a Class 4 insurer fails to meet and/or maintain the required minimum solvency margin. Both Class 3 insurers and Class 4 insurers are prohibited from declaring or paying any dividends if in breach of the required minimum solvency margin or minimum liquidity ratio (the relevant margins) or if the declaration or payment of such dividend would cause the insurer to fail to meet the relevant margins. Where an insurer fails to meet its relevant margins on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA. Further, a Class 4 insurer is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the BMA an affidavit stating that it will continue to meet its relevant margins. Class 3 insurers and Class 4

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insurers must obtain the BMA's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's financial statements. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to those under the Companies Act which apply to all Bermuda companies.

Minimum Liquidity Ratio. The Insurance Act provides a minimum liquidity ratio for general business. An insurer engaged in general business is required to maintain the value of its relevant assets as not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable, and reinsurance balances receivable.

There are certain categories of assets, which, unless specifically permitted by the BMA, do not qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates, and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined).

Annual Statutory Financial Return. Class 3 and Class 4 insurers are required to file with the BMA a Statutory Financial Return no later than four months after the insurer's financial year end (unless specifically extended). The Statutory Financial Return includes, among other items, a report of the approved independent auditor on the Statutory Financial Statements of the insurer; a declaration of the statutory ratios; a solvency certificate; the Statutory Financial Statements themselves; the opinion of the approved Loss Reserve Specialist in respect of the loss and loss expense provisions and, only in the case of Class 4 insurers, certain details concerning ceded reinsurance. The solvency certificate and the declaration of the statutory ratios must be signed by the principal representative and at least two directors of the insurer, who are required to state whether the minimum solvency margin and, in the case of the solvency certificate, the minimum liquidity ratio, have been met, and the independent approved auditor is required to state whether in its opinion it was reasonable for them to so state and whether the declaration of the statutory ratios complies with the requirements of the Insurance Act. Where an insurer's accounts have been audited for any purpose other than compliance with the Insurance Act, a statement to that effect must be filed with the Statutory Financial Return.

Supervision, Investigation and Intervention. The BMA may appoint an inspector with extensive powers to investigate the affairs of an insurer if the BMA believes that an investigation is required in the interest of the insurer's policyholders or persons who may become policyholders. In order to verify or supplement information otherwise provided to them, the BMA may direct an insurer to produce documents or information relating to matters connected with the insurer's business. Moreover, the BMA has the power to appoint professional persons to prepare reports about registered insurers, such as Renaissance Reinsurance, DaVinci and Glencoe. If it appears to the BMA to be desirable in the interests of policyholders, the BMA may also exercise these powers in relation to subsidiaries, parents and other affiliates of registered insurers.

An inspector may examine on oath any past or present officer, employee or insurance manager of the insurer under investigation in relation to its business and apply to the court in Bermuda for an order that other persons may also be examined on any matter relevant to the investigation. It will be the duty of any insurer in relation to whose affairs an inspector has been appointed and of any past or present officer, employee or insurance manager of such insurer, to produce to the inspector on request all books, records and documents relating to the insurer under investigation which are in its or his custody or control and otherwise to give to the inspector all assistance in connection with the investigation which it or he is reasonably able to give.

If it appears to the BMA that there is a risk of the insurer becoming insolvent, or that the insurer is in breach of the Insurance Act or any conditions of its registration under the Insurance Act, the BMA may direct the insurer not to take on any new insurance business; not to vary any insurance contract if the effect would be to increase the insurer's liabilities; not to make certain investments; to realize or not to realize certain investments; to maintain in, or transfer to the custody of, a specified bank,

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certain assets; not to declare or pay any dividends or other distributions or to restrict the making of such payments and/or to limit its premium income and to remove a controller or officer.

In addition to powers under the Insurance Act to investigate the affairs of an insurer, the BMA may require certain information from an insurer (or certain other persons) to be produced to them. The BMA has the power to assist other regulatory authorities, including foreign insurance regulatory authorities, with their investigations involving insurance and reinsurance companies in Bermuda if the BMA is satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities and that such cooperation is in the public interest. The grounds for disclosure by the BMA to a foreign regulatory authority without consent of the insurer are limited and the Insurance Act provides for sanctions for breach of the statutory duty of confidentiality. In 2005, the BMA commenced an on site review of the Company, which is currently still ongoing.

Under the Companies Act, the Insurance Supervisor has been given powers to assist a foreign regulatory authority which has requested assistance in connection with inquiries being carried out by it in the performance of its regulatory functions. The Insurance Supervisor's powers include requiring a person to furnish him with information, to produce documents to him, to attend and answer questions and to give assistance in connection with enquiries. The Insurance Supervisor must be satisfied that the assistance requested by the foreign regulatory authority is for the purpose of its regulatory functions and that the request is in relation to information in Bermuda which a person has in his possession or under his control. The Insurance Supervisor must consider, among other things, whether it is in the public interest to give the information sought.

An insurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda. For the purpose of the Insurance Act, the principal office of each of Renaissance Reinsurance, DaVinci, Glencoe, Top Layer Re, Starbound Re and Tim Re is at our offices at Renaissance House, 8-20 East Broadway, Pembroke HM 19 Bermuda. Without a reason acceptable to the BMA, an insurer may not terminate the appointment of its principal representative, and the principal representative may not cease to act as such, unless fourteen days' notice in writing to the BMA is given of the intention to do so. It is the duty of the principal representative, having formed the view that there is a likelihood of the insurer for which he acts becoming insolvent or its coming to his knowledge, or his having reason to believe that a reportable event has occurred, to orally notify the BMA immediately and, within fourteen days of the relevant view having been formed, to make a report in writing to the BMA setting out all the particulars of the case that are available to him. Examples of such an event include failure by the insurer to comply substantially with a condition imposed upon the insurer by the BMA relating to a solvency margin, a liquidity ratio or other ratio.

Certain Other Bermuda Law Considerations. As ''exempted companies,'' we and our Bermuda subsidiaries are exempt from certain Bermuda laws restricting the percentage of share capital that may be held by non-Bermudians. However, as exempted companies, we and our Bermuda subsidiaries may not participate in certain business transactions, including (1) the acquisition or holding of land in Bermuda (except that required for their business and held by way of lease or tenancy for terms of not more than 50 years) without required authorization, (2) the taking of mortgages on land in Bermuda to secure an amount in excess of $50,000 without the consent of the Insurance Supervisor, (3) the acquisition of any bonds or debentures secured by any land in Bermuda, other than certain types of Bermuda government securities or securities issued by Bermuda public authorities or, (4) the carrying on of business of any kind in Bermuda, except in furtherance of our business carried on outside Bermuda or under license granted by the Insurance Supervisor. Generally it is not permitted without a special license granted by the Insurance Supervisor to insure Bermuda domestic risks or risks of persons of, in or based in Bermuda.

We and our Bermuda subsidiaries must comply with the provisions of the Companies Act regulating the payment of dividends and making distributions from contributed surplus. A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company’s assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

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U.S. Regulation

Reinsurance Regulation. Our Bermuda operations consist of Renaissance Reinsurance, DaVinci, Glencoe and Lantana. Renaissance Reinsurance and DaVinci are Bermuda-based companies that operate as reinsurers. Although neither company is admitted to transact the business of insurance in any jurisdiction except Bermuda, the insurance laws of each state of the U.S. regulate the sale of reinsurance to ceding insurers authorized in the state by non-admitted alien reinsurers, such as Renaissance Reinsurance or DaVinci, acting from locations outside the state. Rates, policy terms and conditions of reinsurance agreements generally are not subject to regulation by any governmental authority. A primary insurer ordinarily will enter into a reinsurance agreement, however, only if it can obtain credit for the reinsurance ceded on its statutory financial statements. In general, regulators permit ceding insurers to take credit for reinsurance in the following circumstances:

- if the reinsurer is licensed in the state in which the primary insurer is domiciled or, in some instances, in certain states in which the primary insurer is licensed;
- if the reinsurer is an ‘‘accredited’’ or otherwise approved reinsurer in the state in which the primary insurer is domiciled or, in some instances, in certain states in which the primary insurer is licensed;
- in some instances, if the reinsurer (a) is domiciled in a state that is deemed to have substantially similar credit for reinsurance standards as the state in which the primary insurer is domiciled and (b) meets certain financial requirements; or
- if none of the above apply, to the extent that the reinsurance obligations of the reinsurer are collateralized appropriately, typically through the posting of a letter of credit for the benefit of the primary insurer or the deposit of assets into a trust fund established for the benefit of the primary insurer.

As alien companies, our Bermuda subsidiaries collateralize their reinsurance obligations to U.S. insurance companies. With some exceptions, the sale of insurance or reinsurance from within a jurisdiction where the insurer is not admitted to do business is prohibited. Neither Renaissance Reinsurance nor DaVinci intends to maintain an office or to solicit, advertise, settle claims or conduct other insurance activities in any jurisdiction other than Bermuda where the conduct of such activities would require that each company be so admitted.

At its meeting in December 2006, the Financial Condition Committee of the National Association of Insurance Commissioners (‘‘NAIC’’) approved a modification of its recommended credit for reinsurance rules to permit highly rated reinsurers to post less than 100% collateral to secure their reinsurance obligations to U.S. ceding companies. If enacted into law in U.S. jurisdictions where U.S. ceding insurers are seeking financial statement credit for reinsurance ceded to our Bermuda subsidiaries, these changes may be beneficial to us by permitting our Bermuda subsidiaries to post less collateral to secure their respective obligations to their respective U.S. ceding companies, assuming that our Bermuda subsidiaries meet the rating standards to be established under these new procedures. At this time, we are unable to determine whether or not these new rules will be beneficial to us.

Excess and Surplus Lines Regulation.   Glencoe and Lantana, both domiciled in Bermuda, are not licensed in the U.S. but are eligible to offer coverage in the U.S. exclusively in the surplus lines market. Glencoe and Lantana are eligible to write surplus lines primary insurance in 51 and 49 jurisdictions of the U.S., respectively, and each is subject to the surplus lines regulation and reporting requirements of the jurisdictions in which it is eligible to write surplus lines primary insurance. Lantana is currently eligible as a surplus lines insurer in 49 jurisdictions of the U.S., and is subject to the surplus lines regulation and reporting requirements of those jurisdictions. In accordance with certain provisions of the NAIC Nonadmitted Insurance Model Act, which provisions have been adopted by a number of states, Glencoe and Lantana have each established, and are required to maintain, a trust funded to a minimum amount as a condition of its status as an eligible, non-admitted insurer in the U.S.

The regulation of surplus lines insurance differs significantly from the licensed or ‘‘admitted’’ market. The regulations governing the surplus lines market have been designed to facilitate the procurement

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of coverage, through specially licensed surplus lines brokers, for hard-to-place risks that do not fit standard underwriting criteria and are otherwise eligible to be written on a surplus lines basis. Most particularly, surplus lines regulation generally provides for more flexible rules relating to insurance rates and forms. However, strict regulations apply to surplus lines placements under the laws of every state, and state insurance regulations generally require that a risk must be declined by three admitted carriers before it may be placed in the surplus lines market. Initial eligibility requirements and annual requalification standards apply to insurance carriers writing on a surplus basis and filing obligations must also be met. In most states, surplus lines brokers are responsible for collecting and remitting the surplus lines tax payable to the state where the risk is located. Companies such as Glencoe and Lantana which conduct business on a surplus lines basis in a particular state are generally exempt from that state’s guaranty fund laws.

Admitted Market Regulation.   Our admitted U.S. operations currently consist of Stonington and Stonington Lloyds, both Texas domiciled insurers. Stonington is licensed to write primary insurance in 50 states and the District of Columbia. Stonington Lloyds is a Lloyds’ company licensed to write primary insurance in Texas. Stonington acts as an attorney-in-fact for Stonington Lloyds. In addition, our insurance company subsidiaries Newstead and Inverness recently received certificates of authority as admitted, licensed insurers in Delaware and Arizona, respectively, although Newstead and Inverness have not yet conducted any business. As licensed insurers operating in the ‘‘admitted’’ market, these companies are subject to extensive regulation under U.S. statutes. The extent of regulation varies from state to state but generally has its source in statutes that delegate regulatory, supervisory and administrative authority to a department of insurance in each state. Among other things, state insurance commissioners regulate insurer solvency standards, insurer licensing, authorized investments, premium rates, restrictions on the size of risks that may be insured under a single policy, loss and expense reserves and provisions for unearned premiums, deposits of securities for the benefit of policyholders, policy form approval, policy renewals and non-renewals, and market conduct regulation including both underwriting and claims practices. State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and quarterly financial reports. The Texas Department of Insurance retains primary regulatory authority for Stonington and Stonington Lloyds, the Delaware Department of Insurance is the primary regulator for Newstead and the Arizona Department of Insurance is Inverness' primary regulator.

In general, licensed U.S. insurers must file with the state departments of insurance in whose states they insure risks all rates for directly underwritten insurance. Licensed U.S. insurers are required to participate in the guaranty associations of the states where they conduct business. Such participation can result in assessments, up to prescribed limits, for losses incurred by policyholders as a result of the impairment or insolvency of other insurance companies. Additionally, some states require licensed insurers to participate in assigned risk plans or other residual market mechanisms which provide coverage with respect to certain lines for insureds that are unable to obtain insurance in the open market. Participation in these residual market mechanisms may take various forms including reinsuring a portion of a pool of policies or directly issuing policies to insureds. An insurer's participation in these plans is typically calculated based on the amount of premium written by the insurer on a voluntary basis for that line of coverage in a prior year. Assigned risk pools generally produce losses which result in assessments to insurers writing the same or similar lines on a voluntary basis. While we expect the exposure in our admitted companies to assessments to generally grow over time, as a result of our growth and the relative change in our product mix, we do not expect the amount of any such guaranty fund assessments, if any, or other assessments to be paid by our admitted companies in 2007 to be material.

Holding Company Regulation.   We and our U.S. insurance subsidiaries are subject to regulation under the insurance holding company laws of various jurisdictions. The insurance holding company laws and regulations vary from jurisdiction to jurisdiction, but generally require an insurance holding company, and insurers that are subsidiaries of insurance holding companies, to register with state regulatory authorities and to file with those authorities certain reports, including information concerning their capital structure, ownership, financial condition, certain intercompany transactions and general business operations.

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Further, in order to protect insurance company solvency, state insurance statutes typically place limitations on the amount of dividends or other distributions payable by insurance companies. Texas, Stonington's and Stonington Lloyds' state of domicile, currently requires that dividends be paid only out of earned statutory surplus and limits the annual amount of dividends payable without the prior approval of the Texas Insurance Department to the greater of 10% of statutory capital and surplus at the end of the previous calendar year or 100% of statutory net income from operations for the previous calendar year. Because of the accumulated deficit in earned surplus from prior operations, Stonington currently cannot pay an ordinary dividend. These insurance holding company laws also impose prior approval requirements for certain transactions with affiliates. In addition, as a result of our ownership of Stonington, Stonington Lloyds, Newstead and Inverness under the terms of applicable state statutes, any person or entity desiring to purchase more than 10% of our outstanding voting securities is required to obtain prior regulatory approval for the purchase.

Terrorism.   In November 2002, the President of the U.S. signed into law TRIA, which provides for the federal government to share with the insurance industry the risk of loss from certain future terrorist attacks. Each participating insurance company must pay covered losses equal to a deductible based on a percentage of direct earned premiums for specified commercial insurance lines from the previous calendar year. TRIA was originally scheduled to expire at the end of 2005, but was extended in December 2005 for an additional two years. As extended, the insurer deductible was increased from 15% in 2005 to 17.5% in 2006 and 20% in 2007. For losses in excess of a company's deductible, the federal government covered 90.0% of the excess losses in 2006, while companies retained the remaining 10.0%, with the government's share decreasing to 85.0% in 2007. Losses covered by the program remain capped annually at $100.0 billion. The extended TRIA established a new program trigger under which federal compensation became available only if aggregate insured losses sustained by all insurers exceeded $50.0 million from a certified act of terrorism that occurred after March 31, 2006 and $100.0 million for losses resulting from a certified act that occurred on or after January 1, 2007. This new trigger is in addition to the $5.0 million certification threshold for an event to be certified.

We cannot assure you that TRIA will be extended beyond 2007, or whether it will be extended on a permanent or temporary basis, and its expiration could have an adverse effect on our clients, the industry or us.

NAIC Ratios.   The NAIC has established 11 financial ratios to assist state insurance departments in their oversight of the financial condition of licensed U.S. insurance companies operating in their respective states. The NAIC's Insurance Regulatory Information System (''IRIS'') calculates these ratios based on information submitted by insurers on an annual basis and shares the information with the applicable state insurance departments. Each ratio has an established ''usual range'' of results and assists state insurance departments in executing their statutory mandate to oversee the financial condition of insurance companies. A ratio result falling outside the usual range of IRIS ratios is not considered a failing result; rather unusual values are viewed as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. An insurance company may fall out of the usual range for one or more ratios because of specific transactions that are in themselves immaterial. Generally, an insurance company will be subject to regulatory scrutiny if it falls outside the usual ranges with respect to four or more of the ratios.

Risk-Based Capital.   The NAIC has implemented a risk-based capital (''RBC'') formula and model law applicable to all licensed U.S. property/casualty insurance companies. The RBC formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Such analysis permits regulators to identify inadequately capitalized insurers. The RBC formula develops a risk adjusted target level of statutory capital by applying certain factors to insurers' business risks such as asset risk, underwriting risk, credit risk and off-balance sheet risk. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations. Insurers that have less statutory capital than the RBC calculation requires are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy. The RBC formulas have not been designed to

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differentiate among adequately capitalized companies that operate with higher levels of capital. Therefore, it is inappropriate and ineffective to use the formulas to rate or to rank such companies. Our U.S. insurance subsidiaries have satisfied the RBC formula since it was created in the mid-1990s and have exceeded all recognized industry solvency standards. As of February 12, 2007, all of our U.S. insurance subsidiaries had adjusted capital in excess of amounts requiring company or regulatory action.

The Gramm-Leach-Bliley Act.   The Gramm-Leach-Bliley Act of 1999 (''GLBA'') permits mergers that combine commercial banks, insurers and securities firms under one holding company, a ''financial holding company.'' Until passage of the GLBA, the Glass-Steagall Act of 1933, as amended, had limited the ability of banks to engage in securities-related businesses, and the Bank Holding Company Act of 1956, as amended, had restricted banks from being affiliated with insurers. As a result of GLBA, the ability of banks to affiliate with insurers may affect our U.S. subsidiaries' product lines by substantially increasing the number, size and financial strength of potential competitors. Privacy provisions of GLBA became fully effective in 2001. These provisions established consumer protections regarding the security and confidentiality of nonpublic personal information and require full disclosure of the privacy policies of financial institutions, including U.S. insurers, to their consumer customers.

Fairness in Asbestos Injury Resolution Act of 2005. Congress is considering a bill called the Fairness in Asbestos Injury Resolution Act of 2005. The proposed bill would establish a privately financed trust fund to provide payments to individuals with asbestos-related illnesses and would stay asbestos claims in the tort litigation system. The trust would be financed by primary insurers, reinsurers and industrial enterprises and the insurance industry would be responsible for funding a certain share of the total costs. Medical criteria would be established to attempt to ensure that only people who showed signs of asbestos-related illnesses would be entitled to payments from the trust. It is difficult to predict whether the proposed bill will be enacted, and if so, what proportion of trust fund monies the insurance industry will be responsible to provide.

Legislative and Regulatory Proposals. Government intervention in the insurance and reinsurance markets, both in the U.S. and worldwide, continues to evolve. For example, Florida has enacted recent insurance reforms that may cause a decline in our property catastrophe gross premiums written as compared to 2006. (See ''Risk Factors,'' ''Management's Discussion of Financial Condition and Results of Operations'' and ''Current Outlook'' for additional disclosure.) Federal and state legislators have considered numerous government initiatives. While we cannot predict the exact nature, timing, or scope of other such proposals, if adopted they could adversely affect our business by:

- providing government supported insurance and reinsurance capacity in markets and to consumers that we target, such as the legislation enacted in Florida in early 2007, described in more detail below;
- requiring our participation in pools and guaranty associations;
- regulating the terms of insurance and reinsurance policies;
- impacting producer compensation; or
- disproportionately benefiting the companies of one country over those of another.

For example, new federal legislation, the Non-Admitted and Reinsurance Reform Act of 2007 (the ''NRRA''), has been introduced in the U.S. House of Representatives. If enacted in its current form, the NRRA would, among other things, (i) grant sole regulatory authority with respect to the placement of non-admitted insurance to the policyholder's home state, (ii) limit states to uniform standards for surplus lines eligibility in conformity with the NAIC Non-Admitted Insurance Model Act, (iii) establish a streamlined insurance procurement process for exempt commercial purchasers by eliminating the requirement that brokers conduct a due diligence search to determine whether the insurance is available from admitted insurers, (iv) establish the domicile state of the ceding insurer as the sole regulatory authority with respect to credit for reinsurance and solvency determinations if such state is an NAIC-accredited state or has financial solvency requirements substantially similar to those required for such accreditation and (v) require that premium taxes related to non-admitted insurance

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only be paid to the policyholder's home state, although the states may enter into a compact or establish procedures to allocate such premium taxes among the states.

In addition, the Insurance Industry Competition Act of 2007 (the ''IICA'') has been introduced in the U.S. Senate and the U.S. House of Representatives. The IICA, if enacted in its current form, would remove the insurance industry's antitrust exemption created by the McCarran-Ferguson Act, which provides that insurance companies are exempted from federal antitrust law so long as they are regulated by state law, absent boycott, coercion or intimidation. If enacted in its current form, the IICA would, among other things, (i) effect a different judicial standard providing that joint conduct by insurance companies, such as price sharing, would be subject to scrutiny by the U.S. Department of Justice unless the conduct was undertaken pursuant to a clearly articulated state policy that is actively supervised by the state and (ii) delegate authority to the Federal Trade Commission to identify insurance industry practices that are not anti-competitive.

We are unable to predict whether any of the foregoing proposed legislation, or any other proposed laws and regulations will be adopted, the form in which any such laws and regulations would be adopted, or the effect, if any, these developments would have on our operations and financial condition.

In addition, the expansion of our primary insurance operations, together with the potential of further expansion into additional insurance markets, could expose us or our subsidiaries to increasing regulatory oversight. However, we intend to continue to conduct our operations so as to minimize the likelihood that Renaissance Reinsurance, DaVinci, Top Layer or Starbound Re will become subject to direct U.S. regulation.

In January 2007, the State of Florida enacted legislation known as Bill No. CS/HB-1A (the ''Bill''), which increased the access of primary Florida insurers to the FHCF. Through the FHCF, the State of Florida now provides below market rate reinsurance of up to $28.0 billion per season, an increase from the previous cap of $16.0 billion, with the State able to further increase the limits up to an additional $4.0 billion per season. In addition, the legislation allows Florida insurers to choose a lower retention level for FHCF reinsurance coverage, at specified rates for specified layers of coverage. Further, the legislation expanded the ability of Citizens, a state-sponsored entity, to compete with private insurance and reinsurance companies, such as ours; by, for example, authorizing Citizens to write multi-peril policies in high-risk account coverage areas. Moreover, the legislation mandated the reduction of Citizens' in force rates by an average of 23%, repealed a 56% rate increase that was to be effective March 1, 2007, and froze any additional rate increases for the remainder of 2007. Also, Citizens' premium rates are no longer required to be non-competitive with the voluntary, private market and are no longer required to be based on the highest rate offered by the top 20 insurers in a given area. In sum, the legislation reduced the role of the private markets in providing support for Florida-based risks, a key target market of ours. While we intend to seek to utilize our strong relationships, record of superior service and financial strength to mitigate the impact of the legislation, because of our position as one of the largest providers of catastrophe-exposed coverage, both on a global basis and in respect of the Florida market, the legislation may have a disproportionate adverse impact on us compared to other market participants.

It is also possible that other states, particularly those with Atlantic or Gulf Coast-exposures, may enact new or expanded legislation based on the Florida precedent, which would further diminish aggregate private market demand for our products. For example, Louisiana is considering setting up its own reinsurance fund similar to the FHCF and allowing Louisiana Citizens Property Insurance Company, a state-sponsored company, to compete with the private sector. Moreover, we believe that numerous modeled potential catastrophes could exceed the actual or politically acceptable bonded capacity of the FHCF, which could lead either to a severe dislocation or the necessity of Federal intervention in the Florida market, either of which would adversely impact the private insurance and reinsurance industry.

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ITEM 1A. RISK FACTORS

Factors that could cause our actual results to differ materially from those in the forward-looking statements contained in this Form 10-K and other documents we file with the Securities and Exchange Commission (‘‘SEC’’) include the following:

Our exposure to catastrophic events could cause our financial results to vary significantly from one period to the next, and the frequency and severity of catastrophic events could exceed our estimates.

Our largest product based on total gross premiums written is property catastrophe reinsurance. We also sell lines of specialty reinsurance and certain Individual Risk products that are exposed to catastrophe risk. We therefore have a large overall exposure to natural and man-made disasters, such as earthquakes, hurricanes, tsunamis, winter storms, freezes, floods, fires, tornados and other natural or man-made disasters, such as acts of terrorism. As a result, our operating results have historically been, and we expect will continue to be, significantly affected by relatively few events of large magnitude.

We expect claims from catastrophic events to cause substantial volatility in our financial results from time to time for any fiscal quarter or year, moreover, catastrophic claims could adversely affect our financial condition, results of operations and cash flows. Our ability to write new business could also be affected. We believe that increases in the value and geographic concentration of insured property and the effects of inflation will continue to increase the severity of claims from catastrophic events in the future.

From time to time, we may have greater exposures in some geographic areas than our overall share of the worldwide market would suggest. Accordingly, if catastrophes were to occur in these areas, we could experience relatively more severe net negative impacts than our competitors.

During 2005, we experienced $891.9 million of net negative impact from hurricanes Katrina, Rita and Wilma. Principally as a result of these hurricane losses in 2005, we recorded a net loss attributable to common shareholders of $281.4 million. In 2004, we recorded $570.2 million of net negative impact from hurricanes Charley, Frances, Ivan and Jeanne. While 2006 was not characterized by land falling windstorm events resulting in material industry losses, we believe, and recent scientific studies have indicated, that the frequency of hurricanes has increased and may further increase in the future relative to the historical experience over the past 100 years. We have adjusted our risk management models to reflect our judgment of how to interpret these studies. However, it is possible that, even after these adjustments, we have underestimated the frequency or severity of hurricanes or other catastrophes.

We may fail to execute our strategy in our newer lines of business, which would impair our future financial results.

Historically, our principal product has been property catastrophe reinsurance. Our specialty reinsurance and Individual Risk lines of business present us with new and expanded challenges and risks which we may not manage successfully. We are not as experienced in these lines of business as we are in property catastrophe reinsurance; for example, we are continuing to expand our claims management function to support these new lines of business. Businesses in early stages of development present substantial business, financial and operational risks and may suffer significant losses. For example, in our newer businesses we are seeking to develop client and customer relationships, build operating procedures, hire staff, develop and install management information and other systems, as well as taking numerous other steps to implement our strategies. Our specialty reinsurance and Individual Risk businesses also require us to develop new expertise in areas such as contract and policy wordings and claims management. If we fail to continue to develop the necessary infrastructure, or otherwise fail to execute our strategy, our results from these new lines of business will likely suffer, perhaps substantially, and our future financial results may be adversely affected.

Our expansion into these newer lines of business has placed increased demands on our financial, managerial and human resources. For example, we may need to attract additional professionals to, or expand our facilities in, Bermuda, a small jurisdiction with limited resources. To the extent we are

unable to attract additional professionals, our financial, managerial and human resources may be strained. The growth in our staff and infrastructure also creates more managerial responsibilities for our current senior executives, potentially diverting their attention from the underwriting and business origination functions for which they are also responsible. Our future profitability depends in part on our ability to further develop our resources and effectively manage this expansion. Our inability to achieve such development or effectively manage this expansion may impair our future financial results.

In general, our techniques for evaluating catastrophe risk are much better developed than those for other classes of risk. In addition, our models are not currently structured to seek to predict long-term climate changes, such as those that might be caused by the possible trend toward significant global warming. Moreover, our models and databases may not adequately address the emergence of a variety of matters which might be deemed to impact certain of our coverages, such as the likelihood or potential severity of insured losses from an avian flu pandemic. Accordingly, our models may understate the exposures we are assuming and our financial results may be adversely impacted, perhaps significantly.

Our utilization of brokers, program managers and other third parties to support our business exposes us to operational and financial risks.

Our Individual Risk operations rely on program managers, and other agents and brokers participating in our programs, to produce and service a substantial portion of our operations in this segment. In these arrangements, we typically grant the program manager the right to bind us to newly issued insurance policies, subject to underwriting guidelines we provide and other contractual restrictions and obligations. Should our managers issue policies that contravene these guidelines, restrictions or obligations, we could nonetheless be deemed liable for such policies. Although we would intend to resist claims that exceed or expand on our underwriting intention, it is possible that we would not prevail in such an action, or that our program manager would be unable to substantially indemnify us for their contractual breach. We also rely on our managers, or other third parties we retain, to collect premiums and to pay valid claims. We could also be exposed to the broker’s operational risk, for example, but not limited to, contract wording errors, technological and staffing deficiencies and inadequate disaster recovery plans.

We could also be exposed to potential liabilities relating to the claims practices of the third-party administrators we have retained to manage substantially all of the claims activity that we expect to arise in our program operations. Although we have implemented monitoring and other oversight protocols, we cannot assure you that these measures will be sufficient to mitigate all of these exposures.

We are also subject to the risk that our successful program managers will not renew their programs with us. Our contracts are generally for defined terms of as little as one year, and either party can cancel the contract in a relatively short period of time. While we believe our arrangements offer numerous benefits to our program participants, we cannot assure you we will retain the programs that produce profitable business or that our insureds will renew with us.

Failure to retain or replace these producers would impair our ability to execute our growth strategy, and our financial results could be adversely affected.

With respect to our Reinsurance operations we do not separately evaluate each of the individual risks assumed under our reinsurance contracts and, accordingly, like other reinsurers, are heavily dependent on the original underwriting decisions made by our ceding companies. We are therefore subject to the risk that our clients may not have adequately evaluated the risks to be reinsured, or that the premiums ceded to us will not adequately compensate us for the risks we assume.

A decline in the ratings assigned to our financial strength may adversely impact our business.

Third party rating agencies assess and rate the financial strength of reinsurers and insurers, such as Renaissance Reinsurance, certain operating subsidiaries of Glencoe Group, Top Layer Re and DaVinci. These ratings are based upon criteria established by the rating agencies. Periodically the

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rating agencies evaluate us to confirm that we continue to meet the criteria of the ratings previously assigned to us. The financial strength ratings assigned by rating agencies to reinsurance or insurance companies are based upon factors relevant to policyholders and are not directed toward the protection of investors. Renaissance Reinsurance is rated ‘‘A’’ by A.M. Best, ‘‘A+’’ by Standard & Poor’s and ‘‘A2’’ by Moody’s Investor Services. Top Layer Re is rated ‘‘AA’’ Standard & Poor’s and ‘‘A+’’ by A.M. Best. Glencoe is rated ‘‘A−’’ by A.M. Best. DaVinci is rated ‘‘A’’ by each of A.M. Bes and Standard & Poor’s. In October 2006, A.M. Best affirmed the financial strength ratings and the issuer credit ratings of the operating subsidiaries of RenaissanceRe. These affirmations include the financial strength ratings of ‘‘A’’ and the issuer credit ratings of ‘‘a’’ of Renaissance Reinsurance, Renaissance Reinsurance of Europe and DaVinci; and the financial strength ratings of ‘‘A−’’ and the issuer credit ratings of ‘‘a−’’ of the operating subsidiaries of Glencoe Group. At such time, all of the ratings affirmed by A.M. Best were removed from under review and assigned a stable outlook. On December 11, 2006, A.M. Best raised its issuer credit ratings of Renaissance Reinsurance and Renaissance Reinsurance of Europe to ‘‘a+’’ from ‘‘a’’ and affirmed the financial strength ratings of ‘‘A’’ for these two subsidiaries, and th outlook for the ratings of Renaissance Reinsurance and Renaissance Reinsurance of Europe by A.M. Best was revised to positive from stable. These ratings are subject to periodic review and may be revised or revoked, by the agencies which issue them. In addition, following the higher levels of hurricane frequency in 2004 and 2005, we understand that the rating agencies may review whether or not to require insurance and reinsurance companies that retain catastrophe risk, such as ourselves, to hold a higher level of capital to support this risk, if the insurance or reinsurance companies are to maintain their ratings.

While the ratings of Renaissance Reinsurance remain among the highest in our business, negative ratings actions in the future could have an adverse effect on our ability to fully realize the market opportunities we currently expect to participate in over coming periods. In addition, it is increasingly common for our reinsurance contracts to contain provisions permitting our clients to cancel coverage pro-rata if our relevant operating subsidiary is downgraded below a certain rating level. Whether a client would exercise this right would depend, among other factors, on the reason for such a downgrade, the extent of the downgrade, the prevailing market conditions and the pricing and availability of replacement reinsurance coverage. Therefore, in the event of a further downgrade, it is not possible to predict in advance the extent to which this cancellation right would be exercised, if at all, or what effect such cancellations would have on the financial condition or future operations, but such effect potentially could be material. To date we are not aware that we have experienced such a cancellation.

The rating agencies may downgrade or withdraw their financial strength ratings in the future if we do not continue to meet the criteria of the ratings previously assigned to us. Our ability to compete with other reinsurers and insurers, and our results of operations, could be materially adversely affected by any such ratings downgrade. For example, following a ratings downgrade we might lose clients to more highly rated competitors or retain a lower share of the business of our clients. The rating of Top Layer Re is dependent in large part upon the rating of State Farm, who provides Top Layer Re with $3.9 billion of stop loss reinsurance.

Recent legislation may decrease the demand for our property catastrophe reinsurance products in Florida and adversely affect our business and results of operations.

In January 2007, the State of Florida enacted the Bill. Among other things, as a result of the Bill, the State of Florida now provides below market rate reinsurance of up to $28.0 billion per season, an increase from the previous cap of $16.0 billion, with the State able to further increase the limits up to an additional $4.0 billion per season. In addition, the legislation allows Florida insurers to choose a lower retention level for FHCF reinsurance coverage, at specified rates for specified layers of coverage. Further, the legislation expanded the ability of Citizens, a state-sponsored entity, to compete with private insurance and reinsurance companies, such as ours; by, for example, authorizing Citizens to write multi-peril policies in high-risk account coverage areas. Moreover, the legislation mandated a reduction of Citizens' inforce rates by an average of 23%, repealed a 56% rate increase that was to be effective March 1, 2007, and froze any additional rate increases for the remainder of 2007. Also,

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Citizens' premium rates are no longer required to be non-competitive with the voluntary, private market and are no longer required to be based on the highest rate offered by the top 20 insurers in a given area. In sum, the legislation reduced the role of the private markets in providing support for Florida-based risks, a market in which we have established substantial market share.

While we intend to seek to utilize our strong relationships, record of superior service and financial strength to mitigate the impact of the Bill, because of our position as one of the largest providers of catastrophe-exposed coverage, both on a global basis and in respect of the Florida market, the Bill may have a disproportionate adverse impact on us compared to other market participants.

It is also possible that other states, particularly those with Atlantic or Gulf Coast exposures, may enact new or expanded legislation based on the Florida precedent, which would further diminish aggregate private market demand for our products. For example, Louisiana is considering setting up its own reinsurance fund similar to the FHCF and allowing Louisiana Citizens Property Insurance Company, a state-sponsored company, to compete with the private sector. Moreover, we believe that numerous modeled potential catastrophes could exceed the actual or politically acceptable bonded capacity of the FHCF, which could lead either to a severe dislocation or the necessity of Federal intervention in the Florida market, either of which would adversely impact the private insurance and reinsurance industry.

Our claims and claim expense reserves are subject to inherent uncertainties.

Our claims and claim expense reserves reflect our estimates using actuarial and statistical projections at a given point in time of our expectations of the ultimate settlement and administration costs of claims incurred. Although we use actuarial and computer models as well as historical reinsurance and insurance industry loss statistics, we also rely heavily on management's experience and judgment to assist in the establishment of appropriate claim reserves. However, because of the many assumptions and estimates involved in establishing reserves, the reserving process is inherently uncertain.

Our specialty reinsurance and Individual Risk operations are expected to produce claims which frequently can only be resolved through lengthy and unpredictable litigation. The measures required to resolve such claims, including the adjudication process, present more reserve challenges than property losses (which tend to be reported comparatively more promptly and to be settled within a relatively shorter period of time). For both our specialty reinsurance and Individual Risk operations, and our traditional property catastrophe business, actual net claims and claim expenses paid may deviate, perhaps substantially, from the reserve estimates reflected in our financial statements.

We expect that some of our assumptions or estimates will prove to be inaccurate, and that our actual net claims and claim expenses paid will differ, perhaps substantially, from the reserve estimates reflected in our financial statements. To the extent that our actual claims and claim expenses exceed our expectations, we would be required to increase claims and claim expense reserves. This would reduce our net income by a corresponding amount in the period in which the deficiency is identified. 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.

Our estimates of losses from hurricanes Katrina, Rita and Wilma, as well as the previously reported 2004 hurricanes and windstorms, are based on factors including currently available information derived from our claims information from clients and brokers, industry assessments of losses from the events, proprietary models, and the terms and conditions of our contracts. Due to the size and unusual complexity of the legal and claims issues relating to these recent events, particularly 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 or other obligors fail to meet their obligations to us. 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 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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Unlike the loss reserves of U.S. insurers, the loss reserves of our Bermuda insurers, including Renaissance Reinsurance, DaVinci and Glencoe, are not regularly examined by insurance regulators, although, as registered Bermuda insurers, we are required to submit opinions of our approved loss reserve specialist with the annual statutory financial returns of our Bermuda-licensed insurers with regard to their respective loss and loss expenses provisions. The loss reserve specialist, who will normally be a qualified actuary, must be approved by the Bermuda Monetary Authority.

The emergence of matters which may impact certain of our coverages, such as the asserted trend toward significant global warming or the potential for significant industry losses from a possible avian flu pandemic, could cause us to underestimate our exposures and potentially adversely impact our financial results.

In our Reinsurance business, we use analytic and modeling capabilities that help us to assess the risk and return of each reinsurance contract in relation to our overall portfolio of reinsurance contracts. For catastrophe-exposed business in our Individual Risk segment, we also seek to utilize proprietary modeling tools that have been developed in conjunction with the modeling and other resources utilized in our Reinsurance operations. See ‘‘Item 1. Business – Underwriting and Risk Management.’’

Our techniques for evaluating catastrophe risk in our Reinsurance and Individual Risk operations are not currently structured to predict certain types of risks. Our models may fail to adequately address the emergence of matters which may be deemed to impact certain of our coverages. Changing weather patterns and climatic conditions, such as global warming, for example, may have added to the unpredictability and frequency of natural disasters in some parts of the world and created additional uncertainty as to future trends and exposures. Our models may be based on data and assumptions that do not accurately account for these emerging developments. Similarly, the likelihood or potential severity of insured losses from an outbreak of a pandemic disease, such as the Avian Influenza A Virus (H5N1), is uncertain and may not be appropriately reflected in our models. While to date outbreaks of the avian flu continue to occur among poultry or wild birds in a number of countries in Asia, parts of Europe, and recently in Africa, transmission to humans has been rare. If the virus mutates to a form that can be transmitted from human to human, it has the potential to spread rapidly worldwide. The contagion and mortality rate of any mutated H5N1 virus that can be transmitted from human to human are highly speculative. Our models may understate the exposures we are assuming. If we fail to appropriately model, price for, and contractually address exposures for certain risks, our financial results may be adversely impacted, perhaps significantly.

The reinsurance business is historically cyclical and the pricing and terms for our products may decline, which could affect our profitability.

The reinsurance and insurance industries have historically been cyclical, characterized by periods of decreasing prices followed by periods of increasing prices. Reinsurers have experienced significant fluctuations in their results of operations due to numerous factors, including the frequency and severity of the catastrophic events, perceptions of risk, levels of capacity, general economic conditions and underwriting results of other insurers and reinsurers. All of these factors fluctuate and may contribute to price declines generally in the reinsurance and insurance industries. It is possible that, in light of current factors such as the increase of capital in our industry since the 2005 catastrophic events and the Florida legislation described above, we have entered or will shortly enter a period in which such price declines will be common.

As noted, changes in the pricing environment may result from changes in the perception of risk following large industry loss events. In particular, the catastrophe-exposed lines in which we are a market leader are affected significantly by volatile and unpredictable developments, including natural and man-made disasters, such as hurricanes, windstorms, earthquakes, floods, fires, explosions, and acts of terrorism, such as hurricane Katrina and the World Trade Center disaster. The occurrence, or nonoccurrence, of catastrophic events, the frequency and severity of which are inherently unpredictable, affects both industry results and consequently prevailing market prices of our products.

We expect premium rates and other terms and conditions of trade to vary in the future. If demand for our products falls or the supply of competing capacity rises, we expect our growth to be adversely

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affected, and our profitability could be affected as well. In particular, we might lose existing customers or decline business, which we might not regain when industry conditions improve.

In addition, a substantial amount of capital has entered the insurance and reinsurance markets both through investments in established companies and through start-up ventures as described above. Hedge funds have been increasingly active in the reinsurance market and markets for related risks. Generally, we expect this trend to increase over time. It is possible that such new or alternative capital in or affecting the market could cause further reductions in prices of our products. To the extent that industry pricing of our products does not meet our hurdle rate, we would plan to reduce our future underwriting activities thus resulting in reduced premiums and a reduction in expected earnings.

Because we depend on a few insurance and reinsurance brokers for a large portion of revenue, loss of business provided by them could adversely affect us.

We market our insurance and reinsurance products worldwide exclusively through insurance and reinsurance brokers. In recent years, we have experienced increased concentration of production from a smaller number of intermediaries. Four brokerage firms accounted for 90.1% of our Reinsurance segment gross premiums written for the year ended December 31, 2006. Subsidiaries and affiliates of the Benfield Group Limited, Marsh Inc., the Willis Group and AON Corporation accounted for approximately 40.6%, 25.4%, 14.3% and 9.8%, respectively, of our gross premiums written in 2006. The loss of a substantial portion of the business provided by these brokers would have a material adverse effect on us. Our ability to market our products could decline as a result of any loss of the business provided by these brokers and it is possible that our premiums written would decrease.

Our reliance on reinsurance brokers exposes us to their credit risk.

In accordance with industry practice, we pay virtually all amounts owed on claims under our policies to reinsurance brokers, and these brokers, in turn, pay these amounts over to the insurers that have reinsured a portion of their liabilities with us (we refer to these insurers as ceding insurers). Likewise, premiums due to us by ceding insurers are virtually all paid to brokers, who then pass such amounts on to us. In many jurisdictions, if a broker were to fail to make such a payment to a ceding insurer, we would remain liable to the ceding insurer for the deficiency. Conversely, in many jurisdictions, when the ceding insurer pays premiums for these policies to reinsurance brokers for payment over to us, these premiums are considered to have been paid by the cedants and the ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received the premiums. Consequently, in connection with the settlement of reinsurance balances, we assume a substantial degree of credit risk associated with brokers around the world. As noted above, due to recent developments in the industry, we believe that the degree of this credit risk has increased.

Heightened scrutiny of issues and practices in the insurance industry may adversely affect our business.

The SEC, the Office of the Attorney General of the State of New York (the ‘‘NYAG’’), the United States Attorney’s Office for the Southern District of New York, and other government authorities are scrutinizing and investigating a number of issues and practices within the insurance industry. It is possible that these investigations or related regulatory developments will mandate or otherwise give rise to changes in industry practices in a fashion that increases our costs or requires us to alter how we conduct our business.

We cannot predict the ultimate effect that these investigations, and any changes in industry practice, including future legislation or regulations that may become applicable to us, will have on the insurance industry, the regulatory framework, or our business.

Because we frequently assume the credit risk of the brokers with whom we do business throughout our insurance and reinsurance operations, our results of operations could be adversely affected if the credit quality of these brokers is severely impacted by the current investigations in the insurance industry or by changes to broker industry practices.

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We could be adversely impacted by U.S. government authority investigations into non-traditional, or loss mitigation, (re)insurance products, as well as our restatement of our financial statements.

We received a subpoena from the SEC in February 2005, a subpoena from 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 related 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 related to our business practice review and to our determination to restate our financial statements for the fiscal years ended December 31, 2003, 2002 and 2001. In addition, we understand that certain of our customers or reinsurers may have been asked to provide or have provided documents and information with respect to contracts to which we are a party in the framework of the ongoing industry-wide investigations.

On February 6, 2007, we announced that the SEC had accepted our offer of settlement to resolve the SEC's investigation, pursuant to which we have consented, without admitting or denying any wrongdoing, to entry of a final judgment enjoining future violations of certain provisions of the federal securities laws, and to pay disgorgement of $1 and a civil penalty of $15.0 million. We will also retain an independent consultant to review certain of our 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 our Board of Directors and certain additional procedures performed by our auditors in connection with their audit of our financial statements for the fiscal year ended December 31, 2004. The amount of the monetary penalty discussed above was provided for in 2005. At this time, the settlement remains subject to approval by the court. We can give no assurances that the settlement will receive the necessary approval from the court. If the settlement is not approved, we could be subject to different or additional remedies, both monetary and non-monetary, which could adversely affect our business or financial statements, perhaps materially. While we will strive to fully comply with the settlement agreement with the SEC, it is possible that the enforcement staff of the SEC or the independent consultant may take issue with our cooperation despite our efforts. Any such failure to comply with the settlement agreement or to be perceived to have failed to so comply could adversely affect us, perhaps materially so.

In September 2006, the SEC filed an enforcement action in the United States District Court for the Southern District of New York against James N. Stanard, our former Chairman and Chief Executive Officer, Martin J. Merritt, our former controller, and Michael W. Cash, a former officer of RenaissanceRe charging Messrs. Stanard, Merritt and Cash with violations of federal securities laws, including securities fraud, and seeks permanent injunctive relief, disgorgement of ill-gotten gains, if any, plus prejudgment interest, civil money penalties, and orders barring each defendant from acting as an officer or director of any public company. This ongoing matter could give rise to additional costs, distractions, or impacts to our reputation. It is possible that the ongoing investigation into our former officers could give rise to additional investigations or proceedings being commenced against us and/or our current or former senior executives in connection with these matters, which could be criminal or civil.

Retrocessional reinsurance may become unavailable on acceptable terms.

As part of our risk management, we buy reinsurance for our own account. This type of insurance when purchased to protect reinsurance companies is known as ‘‘retrocessional reinsurance.’’ Our primary insurance companies also buy reinsurance from third parties. A reinsurer's insolvency or inability to make payments under the terms of its reinsurance treaty with us could have a material adverse effect on us.

From time to time, market conditions have limited, and in some cases have prevented, insurers and reinsurers from obtaining reinsurance. Accordingly, we may not be able to obtain our desired amounts of retrocessional reinsurance. In addition, even if we are able to obtain such retrocessional reinsurance, we may not be able to negotiate terms as favorable to us as in the past. This could limit the amount of business we are willing to write, or decrease the protection available to us as a result of large loss events.

When we purchase reinsurance or retrocessional reinsurance for our own account, the insolvency, inability or reluctance of any of our reinsurers to make timely payments to us under the terms of our reinsurance agreements could have a material adverse effect on us. Generally, we believe that the ‘‘willingness to pay’’ of some reinsurers and retrocessionaires is declining, and that the overall industry ability to pay has also declined due to the adverse results of 2005 and 2004 and other factors. This risk is more significant to us at present than at most times in the past given the substantial retrocessional claims to which we are entitled following the recent large catastrophe loss events of 2005 and 2004. At December 31, 2006, we had recorded $301.9 million of reinsurance recoverables, net of a valuation allowance of $21.9 million for uncollectible recoverables. Our reinsurance recoverables as of December 31, 2006 include $131.4 million with three ceding companies.

Emerging claim and coverage issues, or other litigation, could adversely affect us.

Unanticipated developments in the law as well as changes in social and environmental conditions could potentially result in unexpected claims for coverage under our insurance and reinsurance contracts. These developments and changes may adversely affect us, perhaps materially so. For example, we could be subject to developments that impose additional coverage obligations on us beyond our underwriting intent, or to increases in the number or size of claims to which we are subject. With respect to our specialty reinsurance and Individual Risk operations, these legal, social and environmental changes may not become apparent until some time after their occurrence. For example, we could be deemed liable for losses arising out of a matter, such as the potential for industry losses arising out of an avian flu pandemic, that we had not anticipated or had attempted to contractually exclude. Our exposure to these uncertainties could be exacerbated by the increased willingness of some market participants to dispute insurance and reinsurance contract and policy wordings. Alternatively, potential efforts by us to exclude such exposures could, if successful, reduce the market’s acceptance of our related products. The full effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict. As a result, the full extent of our liability under our coverages may not be known for many years after a contract is issued. Our exposure to this uncertainty will grow as our ‘‘long-tail’’ casualty businesses grow, because in these lines claims can typically be made for many years, making them more susceptible to these trends than our traditional catastrophe business, which is typically more ‘‘short-tail.’’ In addition, we could be adversely affected by the growing trend of plaintiffs targeting participants in the property-liability insurance industry in purported class action litigation relating to claim handling and other practices. Although we are seeking to add professional staff and systems to improve our contracts and claims capabilities, we may fail to mitigate our exposure to these growing uncertainties.

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 RenaissanceRe. 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 RenaissanceRe between April 22, 2003 and July 25, 2005. The Consolidated Amended Complaint, which was amended in December 2006, names as defendants, in addition to RenaissanceRe, current and former officers of RenaissanceRe (Messrs. Stanard, William I. Riker, John M. Lummis, Cash and Merritt) and alleges that RenaissanceRe and the other named defendants violated the U.S. federal securities laws by making material misstatements and failing to state material facts about our business and financial condition in, among other things, SEC filings and public statements. The Consolidated Amended Complaint, as amended, seeks compensatory damages without specifying an amount.

On February 14, 2007, we executed a memorandum of understanding with plaintiffs' representatives setting forth an agreement in principle to settle the claims alleged in the Consolidated Amended Complaint, as amended. Pursuant to the terms of the agreement in principle, we did not make any admission of liability, and we continue to deny any and all liability in connection with the allegations of the Consolidated Amended Complaint, as amended. The total amount to be paid in settlement of the claims is $13.5 million. A portion of this amount is expected to be offset by insurance recoveries. These amounts have been provided for in our financial statements. The settlement provides for the full release of all parties, including the Company and our present and former directors and officers,

including without limitation the defendants who were named in the suits. The settlement is subject to, among other things, court review and approval and other customary conditions.

We operate in a highly competitive environment.

The reinsurance industry is highly competitive. We compete, and will continue to compete, with major U.S. and non-U.S. insurers and property catastrophe reinsurers, including other Bermuda-based reinsurers. Many of our competitors have greater financial, marketing and management resources than we do. Market participants continue to raise and accumulate new capital, thereby strengthening their ability to compete. In addition, alternative sources of competitive capital, including hedge funds, are increasing the overall capacity in the industry. Increased capacity levels in our industry generally have led to increased competition.

We believe that our principal competitors in the property catastrophe reinsurance market include other companies active in the Bermuda market, including Ace Limited, Aspen Holdings Ltd., Everest Re Group Ltd., IPC Holdings, Ltd., PartnerRe Ltd. and XL Capital Ltd. We also compete with certain Lloyd's syndicates active in the London market, as well as with a number of other industry participants, such as AIG, Berkshire, Munich Re Group and Swiss Re. In addition, there are other relatively new Bermuda reinsurers with whom we compete, such as Allied World Assurance Company, Arch, Axis Capital Holdings Limited, Endurance Specialty Holdings Ltd., Montpelier Re Holdings Ltd. and Platinum. As our business evolves over time we expect our competitors to change as well. Following hurricane Katrina in August 2005, a significant number of new reinsurance companies were formed in Bermuda which have resulted, in 2006, in new competition, which may well continue in subsequent periods. There has been substantial new capital contributed to these new Bermuda-based reinsurance enterprises. In addition, we believe existing reinsurance companies raised significant new capital subsequent to hurricane Katrina to rebuild their capital position and to capitalize on new opportunities. Also, hedge funds have shown increasing interest in entering the reinsurance market, either through the formation of reinsurance companies, or through the use of other financial products. In addition, we may not be aware of other companies that may be planning to enter the reinsurance market or of existing companies that may be planning to raise additional capital.

We also continue to experience a degree of competition from alternative products from capital market participants that are intended to compete with reinsurance products and which could impact the demand for traditional catastrophe reinsurance. We believe activity in this sector has recently increased and may continue to increase. We cannot predict what effect any of these developments may have on our businesses.

The businesses in which our Individual Risk unit operates are also highly competitive. Primary insurers compete on the basis of factors including distribution channels, product, price, service and financial strength. Many of our primary insurance competitors are larger and more established than we are and have greater financial resources and consumer recognition. We seek primary insurance pricing that will result in adequate returns on the capital allocated to our primary insurance business. We may lose primary insurance business to competitors offering competitive insurance products at lower prices or on more advantageous terms.

U.S. taxing authorities could contend that one or more of our Bermuda subsidiaries are subject to U.S. corporate income tax.

If the U.S. Internal Revenue Service (the ''IRS'') were to contend successfully that Renaissance Reinsurance, Glencoe, DaVinci or Top Layer Re is engaged in a trade or business in the U.S., Renaissance Reinsurance, Glencoe, DaVinci or Top Layer Re would, to the extent not exempted from tax by the U.S.-Bermuda income tax treaty, be subject to U.S. corporate income tax on that portion of its net income treated as effectively connected with a U.S. trade or business, as well as the U.S. corporate branch profits tax. Although we would vigorously resist such a contention, if we were ultimately held to be subject to taxation, our earnings would correspondingly decline.

In addition, benefits of the U.S.-Bermuda income tax treaty which may limit any such tax to income attributable to a permanent establishment maintained by Renaissance Reinsurance, Glencoe, DaVinci

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or Top Layer Re in the U.S. are only available to any of Renaissance Reinsurance, Glencoe, DaVinci or Top Layer Re if more than 50% of its shares are beneficially owned, directly or indirectly, by individuals who are Bermuda residents or U.S. citizens or residents. Renaissance Reinsurance, Glencoe, DaVinci or Top Layer Re may not be able to continually satisfy such beneficial ownership test or be able to establish it to the satisfaction of the IRS. Finally, it should be noted that it is unclear whether the income tax treaty (assuming satisfaction of the beneficial ownership test) applies to income other than premium income, such as investment income.

The loss of key senior members of management could adversely affect us.

Our success has depended, and will continue to depend, in substantial part upon our ability to attract and retain our executive officers. In particular, we believe we are substantially dependent upon the services of our senior members of management, who include our co-founder and current Chief Executive Officer; the Presidents of RenaissanceRe, Renaissance Reinsurance and Ventures; each of whom has served with us for more than ten years, and our Chief Executive Officer of Glencoe Group. Although we are not aware of any planned departures, the loss of one or more of our executive officers, including but not limited to the persons named above, could adversely impact our business; by, for example, making it more difficult to retain clients or other business contacts whose relationship depends in part on the service of the departing executives. In addition, the loss of services of these executives, or other members of senior management in the future, and the uncertain transition of new members of our senior management team, could strain our ability to execute our initiatives, as described above. In general, the loss of the services of any members of our current senior management team may adversely affect our business, perhaps materially so.

In addition, our ability to execute our business strategy is dependent on our ability to attract and retain a staff of qualified underwriters and service personnel. The location of our global headquarters in Bermuda may impede our ability to recruit and retain highly skilled employees. We do not currently maintain key man life insurance policies with respect to any of our employees.

Under Bermuda law, non-Bermudians may not engage in any gainful occupation in Bermuda without the specific permission of the appropriate government authority. The Bermuda government will issue a work permit for a specific period of time, which may be extended upon showing that, after proper public advertisement, no Bermudian (or spouse of a Bermudian) is available who meets the minimum standards for the advertised position. Substantially all of our officers are working in Bermuda under work permits that will expire over the next three years. The Bermuda government could refuse to extend these work permits. In addition, a Bermuda government policy limits the duration of work permits to a total of six years, which is subject to certain exemptions only for key employees. If any of our senior executive officers were not permitted to remain in Bermuda, our operations could be disrupted and our financial performance could be adversely affected as a result.

A decline in our investment performance could reduce our profitability.

We derive a significant portion of our income from our invested assets, in amounts which have increased in recent years driven by factors including the increased size of our invested assets. As a result, our financial results depend in increasing part on the performance of our investment portfolio, which contains fixed maturity securities, such as bonds and mortgage-backed securities. Our operating results are subject to a variety of investment risks, including risks relating to general economic conditions, market volatility, interest rate fluctuations, foreign currency risk, liquidity risk and credit and default risk. Additionally, with respect to certain of our investments, we are subject to pre-payment or reinvestment risk.

As our invested assets have grown substantially in recent years and have come to effect a comparably greater contribution to our financial results, a failure to successfully execute our investment strategy could have a significant adverse effect on our overall results.

The market value of our fixed maturity investments is subject to fluctuation depending on changes in various factors, including prevailing interest rates. As a result of large reinsurance or insurance losses, we may be forced to liquidate our investments at times and prices that are not optimal, which could have a material adverse effect on the performance of our investment portfolio.

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Increases in interest rates could cause the market value of our investment portfolio to decrease, perhaps substantially. Conversely, a decline in interest rates could reduce our investment yield, which would reduce our overall profitability. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Any measures we take that are intended to manage the risks of operating in a changing interest rate environment may not effectively mitigate such interest rate sensitivity.

In recent years we have allocated a portion of our portfolio to other investments which have different risk characteristics than our traditional fixed maturity securities and short term investment portfolios. These other investments include private equity partnerships, hedge fund investments, a fund that invests in senior secured bank loans, a European high yield credit fund and catastrophe bonds. Also included in other investments are investments in a medium term note, representing an interest in a pool of European fixed income securities, a non-U.S. dollar convertible fund and miscellaneous other investments. We have been decreasing our percentage allocation to these other investments, particularly hedge funds. The performance of these other investments had a positive impact on the performance of our investment portfolio in 2005 and 2006, and accordingly our decreased relative allocation to these investments could reduce the returns on our portfolio, adversely affecting our overall profitability.

These other investments are recorded on our consolidated balance sheet at fair value. The fair value of certain of these investments is generally established on the basis of the net valuation criteria established by the managers of such investments. These net valuations are determined based upon the valuation criteria established by the governing documents of the investments. Due to a lag in the valuations reported by the fund managers, the majority of our other investments are reported on a one month or one quarter lag. Such valuations may differ significantly from the values that would have been used had ready markets existed for the shares, partnership interests or notes of the investments. Many of the investments are subject to restrictions on redemptions and sales which are determined by the governing documents and limit our ability to liquidate these investments in the short term. These investments expose us to market risks including interest rate risk, foreign currency risk, equity price risk and credit risk. We are unable to precisely quantify these risks as we do not have timely access to the securities underlying each investment. To the extent these risks move against us it could result in a material adverse change to our investment performance. The performance of these investments is also dependent on the individual investment managers and the investment strategies. It is possible that the investment managers will leave and/or the investment strategies will become ineffective. Any of the foregoing could result in a material adverse change to our investment performance, and accordingly adversely affect our financial results.

Given our reliance on external investment managers, we could also be exposed to the operational risks, for example, but not limited to, technological and staffing deficiencies and inadequate disaster recovery plans of our investment managers.

We may require additional capital in the future, which may not be available or only available on unfavorable terms.

We monitor our capital adequacy on a regular basis. The capital requirements of our business depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. Our ability to underwrite is largely dependent upon the quality of our claims paying and financial strength ratings as evaluated by independent rating agencies. To the extent that our existing capital is insufficient to support our future operating requirements, we may need to raise additional funds through financings or limit our growth. Any further equity or debt financing, if available at all, may be on terms that are unfavorable to us. Our ability to raise such capital successfully would depend upon the facts and circumstances at the time, including our financial position and operating results, market conditions, and applicable legal issues.

If we are not able to obtain adequate capital if and when needed, our business, results of operation and financial condition would be adversely affected.

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Consolidation in the insurance industry could adversely impact us.

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

The Organization for Economic Cooperation and Development (''OECD'') and the European Union are considering measures that might increase our taxes and reduce our net income.

The OECD has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. In the OECD's report dated April 18, 2002 and updated as of June 2004 and November 2005 via a ''Global Forum,'' Bermuda was not listed as an uncooperative tax haven jurisdiction because it had previously committed to eliminate harmful tax practices and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. We are not able to predict what changes will arise from the commitment or whether such changes will subject us to additional taxes.

Political, regulatory and industry initiatives could adversely affect our business.

The insurance and reinsurance regulatory framework is subject to heavy scrutiny by the U.S. and individual state governments as well as an increasing number of international authorities. Government regulators are generally concerned with the protection of policyholders to the exclusion of other constituencies, including shareholders. Increasingly, governmental authorities in both the U.S. and worldwide seem to us to be interested in the potential risks posed by the reinsurance industry as a whole, and to commercial and financial systems in general. While we do not believe these inquiries have identified meaningful new risks posed by the reinsurance industry, and we cannot predict the exact nature, timing or scope of possible governmental initiatives, we believe it is likely there will be increased regulatory intervention in our industry in the future. For example, the U.S. federal government has increased its scrutiny of the insurance regulatory framework in recent years, and some state legislators have considered or enacted laws that will alter and likely increase state regulation of insurance and reinsurance companies and holding companies. Moreover, the NAIC, which is an association of the insurance commissioners of all 50 states and the District of Columbia and state insurance regulators, regularly reexamine existing laws and regulations.

For example, we could be adversely affected by proposals to:

- provide insurance and reinsurance capacity in markets and to consumers that we target, such as the legislation enacted in Florida in early 2007;
- require our participation in industry pools and guaranty associations;
- expand the scope of coverage under existing policies for matters such as hurricanes Katrina, Rita and Wilma, and the New Orleans flood, or such as a pandemic flu outbreak;
- increasingly mandate the terms of insurance and reinsurance policies; or
- disproportionately benefit the companies of one country over those of another.

In particular, the legislation enacted by the State of Florida relating to the FHCF, Citizens and related matters could be expanded in scope or in duration, furthering its adverse impact on the private

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markets and us. It is also possible that other states, particularly those with Atlantic or Gulf Coast exposures, or the Federal government, may enact new or expanded legislation based on the Florida precedent, which would further diminish aggregate private market demand for our products.

Moreover, we believe that numerous modeled potential catastrophes could exceed the actual or politically acceptable bonded capacity of the FHCF, which could lead either to a severe industry dislocation or the necessity of Federal intervention in the Florida market, either of which could adversely impact the private insurance and reinsurance industry.

The growth of our primary insurance business, which is regulated more comprehensively than reinsurance, increases our exposure to adverse political, judicial and legal developments. Moreover, our exposure to potential regulatory initiatives could be heightened by the fact that our principal operating companies are domiciled in, and operate exclusively from, Bermuda. For example, Bermuda, a small jurisdiction, may be disadvantaged in participating in global or cross border regulatory matters as compared with larger jurisdictions such as the U.S. or the leading European Union countries. In addition, Bermuda, which is currently an overseas territory of the United Kingdom, may consider changes to its relationship with the United Kingdom in the future. These changes could adversely affect Bermuda’s position in respect of future regulatory initiatives, which could adversely impact us commercially.

We could be adversely affected if TRIA is not renewed.

In response to the tightening of supply in certain insurance and reinsurance markets resulting from, among other things, the September 11th tragedy, the Terrorism Risk Insurance Act, commonly referred to as ‘‘TRIA’’, was enacted in 2002 to ensure the availability of commercial insurance coverage for certain terrorist acts in the U.S. This law established a federal assistance program through the end of 2005 (as amended, through the end of 2007) to help the commercial property and casualty insurance industry cover claims related to future terrorism-related losses and required that coverage for terrorist acts be offered by insurers. TRIA was originally scheduled to expire at the end of 2005, but was extended in December 2005 for an additional two years. The extended bill reduced the protections of the act. For example, as extended, the insurer deductible was increased from 15% in 2005 to 17.5% in 2006 and 20% in 2007. In addition, the extended TRIA established a new program trigger under which Federal compensation will become available only if aggregate insured losses sustained by all insurers exceed $50.0 million from a certified act of terrorism occurring after March 31, 2006 and $100.0 million for losses resulting from a certified act which occurs on or after January 1, 2007. We believe TRIA has been an effective mechanism to assist policyholders and industry participants with the extreme contingent losses that might be caused by acts of terrorism. We cannot assure you that TRIA will be extended beyond 2007, and its expiration could have an adverse effect on our clients, industry or us.

The covenants in our debt agreements limit our financial and operational flexibility, which could have an adverse effect on our financial condition.

We have incurred indebtedness, and may incur additional indebtedness in the future. At December 31, 2006, we had an aggregate of $553.1 million of indebtedness outstanding, consisting of $100.0 million of 5.875% Senior Notes due 2013, $150.0 million of 7.0% Senior Notes due 2008, $103.1 million of 8.54% subordinated obligation to the Capital Trust, and a $200.0 million bank loan incurred and fully drawn by our consolidated subsidiary, DaVinciRe.

Our insurance and reinsurance subsidiaries maintain letter of credit facilities in connection with their insurance and reinsurance business. The largest of these is a secured letter of credit facility established under a reimbursement agreement entered into by certain of our subsidiaries and affiliates. The obligations of each of our subsidiaries and affiliates party to the reimbursement agreement are secured by certain collateral, including cash, eligible high-quality marketable securities and redeemable preference shares of RIHL. The facility currently is in the amount of $1.725 billion. At February 12, 2007, the aggregate face amount of letters of credit outstanding under the reimbursement agreement with effective dates on or before December 31, 2006 was $1.149 billion and total letters of credit outstanding under all facilities was $1.187 billion.

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The agreements covering our indebtedness, particularly our bank loans, contain numerous covenants that limit our ability, among other things, to borrow money, make particular types of investments or other restricted payments, sell assets, merge or consolidate. These agreements also require us to maintain specific financial ratios. If we fail to comply with these covenants or meet these financial ratios, the lenders under our credit facilities could declare a default and demand immediate repayment of all amounts owed to them, cancel their commitments to lend or issue letters of credit, or both, and require us to pledge additional or a different type of collateral.

Because we are a holding company, we are dependent on dividends and payments from our subsidiaries.

As a holding company with no direct operations, we rely on investment income, cash dividends and other permitted payments from our subsidiaries to make principal and interest payments on our debt and to pay dividends to our shareholders. The holding company does not have any operations and from time to time may not have significant liquid assets. If our subsidiaries are restricted from paying dividends to us, we may be unable to pay dividends or to repay our indebtedness.

Bermuda law and regulations require our subsidiaries which are registered in Bermuda as insurers to maintain a minimum solvency margin and minimum liquidity ratio, and prohibit dividends that would result in a breach of these requirements. Further, Renaissance Reinsurance and DaVinci, as Class 4 insurers in Bermuda, may not pay dividends which would exceed 25% of their respective capital and surplus, unless they first make filings confirming that they meet the required margins. Our Class 3 insurers, including Glencoe, Lantana and Top Layer Re, may not declare or pay dividends during any financial year that would cause that insurer (as the case may be) to fail to meet its minimum solvency margin and minimum liquidity ratio.

Generally, our U.S. insurance subsidiaries may only pay dividends out of earned surplus. Further, the amount payable without the prior approval of the applicable state insurance department is generally limited to the greater of 10% of policyholders’ surplus or statutory capital, or 100% of the subsidiary’s prior year statutory net income. Since our U.S. insurance subsidiaries’ earned surplus is negative, these subsidiaries cannot currently pay dividends without the applicable state insurance department approval.

Regulatory challenges in the U.S. or elsewhere to our Bermuda operations’ claims of exemption from insurance regulation could restrict our ability to operate, increase our costs, or otherwise adversely impact us.

Renaissance Reinsurance, DaVinci and Top Layer Re are not licensed or admitted in any jurisdiction except Bermuda. Renaissance Reinsurance, Glencoe, DaVinci and Top Layer Re each conduct business only from their principal offices in Bermuda and do not maintain an office in the U.S. Recently, the insurance and reinsurance regulatory framework has been subject to increased scrutiny in many jurisdictions, including the U.S. and various states within the U.S. If our Bermuda insurance or reinsurance operations become subject to the insurance laws of any state in the U.S., we could face inquiries or challenges to the future operations of these companies.

Moreover, we could be put at a competitive disadvantage in the future with respect to competitors that are licensed and admitted in U.S. jurisdictions. Among other things, jurisdictions in the U.S. do not permit insurance companies to take credit for reinsurance obtained from unlicensed or non-admitted insurers on their statutory financial statements unless security is posted. Our contracts generally require us to post a letter of credit or provide other security after a reinsured reports a claim. In order to post these letters of credit, issuing banks generally require collateral. It is possible that the European Union or other countries might adopt a similar regime in the future, or that U.S. rules could be altered in a way that treats Bermuda disproportionately. Any such development could adversely affect us.

Glencoe and Lantana are currently eligible, non-admitted excess and surplus lines insurers in, respectively, 51 and 49 states and territories of the U.S. and are each subject to certain regulatory and reporting requirements of these states. However, neither Glencoe nor Lantana is admitted or licensed in any U.S. jurisdiction; moreover, Glencoe only conducts business from Bermuda. Accordingly, the scope of Glencoe’s and Lantana’s activities in the U.S. is limited, which could adversely affect their ability to compete.

In addition, Stonington, which writes insurance in all 50 states and the District of Columbia on an admitted basis, is subject to extensive regulation under state statutes which confer regulatory, supervisory and administrative powers on state insurance commissioners. Such regulation generally is designed to protect policyholders rather than investors, and relates to such matters as: rate setting; policy forms; limitations on dividends and transactions with affiliates; solvency standards which must be met and maintained; the licensing of insurers and their agents; the examination of the affairs of insurance companies, which includes periodic market conduct examinations by the regulatory authorities; annual and other reports, prepared on a statutory accounting basis; establishment and maintenance of reserves for unearned premiums and losses; and requirements regarding numerous other matters. We could be required to allocate considerable time and resources to comply with these requirements, and could be adversely affected if a regulatory authority believed we had failed to comply with applicable law or regulation. We plan to grow Stonington’s business and, accordingly, expect our absolute and relative regulatory burden to increase.

Our current or future business strategy could cause one or more of our subsidiaries to become subject to additional regulation in other jurisdictions. Any failure to comply with applicable laws could result in the imposition of significant restrictions on our ability to do business, and could also result in fines and other sanctions, any or all of which could adversely affect our financial results and operations.

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

We are subject to operational risks including fraud, employee errors, failure to document transactions properly or to obtain proper internal authorization, failure to comply with regulatory requirements, information technology failures, or external events. Losses from these risks may occur from time to time and may be significant. As our business and operations grow more complex we are exposed to more risk in these areas.

Our modeling, underwriting and information technology and application systems are critical to our success. Moreover, our proprietary technology and application systems have been an important part of our underwriting strategy and our ability to compete successfully. We have also licensed certain systems and data from third parties. We cannot be certain that we will have access to these, or comparable, service providers, or that our information technology or application systems will continue to operate as intended. While we have implemented disaster recovery and other business contingency plans, a defect or failure in our internal controls or information technology and application systems could result in reduced or delayed revenue growth, higher than expected losses, management distraction, or harm to our reputation. We believe appropriate controls and mitigation procedures are in place to prevent significant risk of defect in our internal controls, information technology and application systems, but internal controls provide only reasonable, not absolute, assurance as to the absence of errors or irregularities and any ineffectiveness of such controls and procedures could have a material adverse effect on our business.

We may be adversely affected by foreign currency fluctuations.

Our functional currency is the U.S. dollar. A portion of our premium is written in currencies other than the U.S. dollar and a portion of our claims and claim expense reserves is also in non-dollar currencies. Moreover, we maintain a portion of our cash and investments in currencies other than the U.S. dollar. Although we generally seek to hedge significant non-U.S. dollar positions, we may, from time to time, experience losses resulting solely from fluctuations in the values of these foreign currencies, which could cause our consolidated earnings to decrease. In addition, failure to manage our foreign currency exposures could cause our results of operations to be more volatile.

Some aspects of our corporate structure may discourage third-party takeovers and other transactions or prevent the removal of our current board of directors and management.

Some provisions of our Amended and Restated Bye-Laws have the effect of making more difficult or discouraging unsolicited takeover bids from third parties or preventing the removal of our current board of directors and management. In particular, our Bye-Laws prohibit transfers of our capital

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shares if the transfer would result in a person owning or controlling shares that constitute 9.9% or more of any class or series of our shares. The primary purpose of this restriction is to reduce the likelihood that we will be deemed a ‘‘controlled foreign corporation’’ within the meaning of the Internal Revenue Code for U.S. federal tax purposes. However, this limit may also have the effect of deterring purchases of large blocks of common shares or proposals to acquire us, even if some or a majority of our shareholders might deem these purchases or acquisition proposals to be in their best interests.

In addition, our Bye-Laws provide for:

- a classified Board, whose size is fixed and whose members may be removed by the shareholders only for cause upon a 66 2/3% vote;
- restrictions on the ability of shareholders to nominate persons to serve as directors, submit resolutions to a shareholder vote and requisition special general meetings;
- a large number of authorized but unissued shares which may be issued by the Board without further shareholder action; and
- a 66 2/3% shareholder vote to amend, repeal or adopt any provision inconsistent with several provisions of the Bye-Laws.

These Bye-Law provisions make it more difficult to acquire control of us by means of a tender offer, open market purchase, proxy contest or otherwise. These provisions are designed to encourage persons seeking to acquire control of us to negotiate with our directors, which we believe would generally best serve the interests of our shareholders. However, these provisions could have the effect of discouraging a prospective acquirer from making a tender offer or otherwise attempting to obtain control of us. In addition, these Bye-Law provisions could prevent the removal of our current board of directors and management. To the extent these provisions discourage takeover attempts, they could deprive shareholders of opportunities to realize takeover premiums for their shares or could depress the market price of the shares.

We indirectly own Stonington, Stonington Lloyds, Newstead and Inverness. Our ownership of a U.S. insurance company such as these can, under applicable state insurance company laws and regulations, delay or impede a change of control of RenaissanceRe. It is possible that we will form, acquire or invest in other U.S. domestic insurance companies in the future, which could make this risk more severe. Under applicable state insurance regulations, any proposed purchase of 10% or more of our voting securities would require the prior approval of the relevant insurance regulatory authorities.

Investors may have difficulties in serving process or enforcing judgments against us in the U.S.

We are a Bermuda company. In addition, certain of our officers and directors reside in countries outside the U.S. All or a substantial portion of our assets and the assets of these officers and directors are or may be located outside the U.S. Investors may have difficulty effecting service of process within the U.S. on our directors and officers who reside outside the U.S. or recovering against us or these directors and officers on judgments of U.S. courts based on civil liabilities provisions of the U.S. federal securities laws whether or not we appoint an agent in the U.S. to receive service of process.

AVAILABLE INFORMATION

We maintain a website at http://www.renre.com. The information on our website is not incorporated by reference in this Form 10-K.

We make available, free of charge through our website, our financial information, including the information contained in our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. We also make available, free of charge from our website, our Audit Committee Charter, Compensation/Governance Committee Charter, Corporate

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Governance Guidelines and Statement of Policies, and Code of Ethics and Conduct (‘‘Code of Ethics’’). Such information is also available in print for any shareholder who sends a request to RenaissanceRe Holdings Ltd., Attn: Office of the Corporate Secretary, P.O. Box HM 2527, Hamilton, HMGX, Bermuda. Reports filed with the SEC may also be viewed or obtained at the SEC Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the SEC Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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GLOSSARY OF SELECTED INSURANCE AND REINSURANCE TERMS

Accident year	Year of occurrence of a loss. Claim payments and reserves for claims and claim expenses are allocated to the year in which the loss occurred for losses occurring contracts and in the year the loss was reported for claims made contracts.
Acquisition expenses	The aggregate expenses incurred by a company acquiring new business, including commissions, underwriting expenses, premium taxes and administrative expenses.
Additional case reserves	Additional case reserves represent management's estimate of reserves for claims and claim expenses that are allocated to specific contracts, less paid and reported losses by the client.
Attachment point	The dollar amount of loss (per occurrence or in the aggregate, as the case may be) above which excess of loss reinsurance becomes operative.
Backup premiums written	The premiums written for additional reinsurance coverage purchased after a series of catastrophic events has exhausted or significantly reduced the initial and reinstatement limits available under the original coverages purchased.
Bordereau	A report providing premium or loss data with respect to identified specific risks. This report is periodically furnished to a reinsurer by the ceding insurers or reinsurers.
Broker	An intermediary who negotiates contracts of insurance or reinsurance, receiving a commission for placement and other services rendered, between (1) a policy holder and a primary insurer, on behalf of the insured party, (2) a primary insurer and reinsurer, on behalf of the primary insurer, or (3) a reinsurer and a retrocessionaire, on behalf of the reinsurer.
Capacity	The percentage of surplus, or the dollar amount of exposure, that an insurer or reinsurer is willing or able to place at risk. Capacity may apply to a single risk, a program, a line of business or an entire book of business. Capacity may be constrained by legal restrictions, corporate restrictions or indirect restrictions.

Case reserves	Loss reserves, established with respect to specific, individual reported claims.
Casualty insurance or reinsurance	Insurance or reinsurance that is primarily concerned with the losses caused by injuries to third persons and their property (in other words, persons other than the policyholder) and the legal liability imposed on the insured resulting there from. Also referred to as liability insurance.
Catastrophe	A severe loss, typically involving multiple claimants. Common perils include earthquakes, hurricanes, hailstorms, severe winter weather, floods, fires, tornadoes, explosions and other natural or

	man-made disasters. Catastrophe losses may also arise from acts of war, acts of terrorism and political instability.
Catastrophe excess of loss reinsurance	A form of excess of loss reinsurance that, subject to a specified limit, indemnifies the ceding company for the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a ‘‘catastrophe.’’
Cede; cedant; ceding company	When a party reinsures its liability with another, it ‘‘cedes’’ business and is referred to as the ‘‘cedant’’ or ‘‘ceding company.’’
Claim	Request by an insured or reinsured for indemnification by an insurance company or a reinsurance company for losses incurred from an insured peril or event.
Claims made contracts	Contracts that cover claims for losses occurring during a specified period that are reported during the term of the contract.
Claims and claim expense ratio, net	The ratio of net claims and claim expenses to net premiums earned determined in accordance with either SAP or GAAP.
Claim reserves	Liabilities established by insurers and reinsurers to reflect the estimated costs of claim payments and the related expenses that the insurer or reinsurer will ultimately be required to pay in respect of insurance or reinsurance policies it has issued. Claims reserves consist of case reserves, established with respect to individual reported claims, additional case reserves and ‘‘IBNR’’ reserves. For reinsurers, loss expense reserves are generally not significant because substantially all of the loss expenses associated with particular claims are incurred by the primary insurer and reported to reinsurers as losses.
Combined ratio	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.
Earned premium	(1) That part of the premium applicable to the expired part of the policy period, including the short-rate premium on cancellation, the entire premium on the amount of loss paid under some contracts, and the entire premium on the contract on the expiration of the policy, which is recognized as income during the period. (2) That portion of the reinsurance premium calculated on a monthly, quarterly or annual basis which is to be retained by the reinsurer and recognized as income in the period should their cession be canceled. (3) When a premium is paid in advance for a certain time, the company is said to ‘‘earn’’ the premium as the time advances. For

	example, a policy written for three years and paid for in advance would be one-third earned at the end of the first year.
Excess and surplus lines reinsurance	Any type of coverage that cannot be placed with an insurer admitted to do business in a certain jurisdiction. Risks placed in excess and surplus lines markets are often substandard as respects adverse loss experience, unusual, or unable to be placed in conventional markets due to a shortage of capacity.
Excess of loss	Reinsurance or insurance that indemnifies the reinsured or insured against all or a specified portion of losses on underlying insurance policies in excess of a specified amount, which is called a ‘‘level’’ or ‘‘retention.’’ Also known as non-proportional reinsurance. Excess of loss reinsurance is written in layers. A reinsurer or group of reinsurers accepts a layer of coverage up to a specified amount. The total coverage purchased by the cedant is referred to as a ‘‘program’’ and will typically be placed with predetermined reinsurers in pre-negotiated layers. Any liability exceeding the outer limit of the program reverts to the ceding company, which also bears the credit risk of a reinsurer’s insolvency.
Exclusions	Those risk, perils, or classes of insurance with respect to which the reinsurer will not pay loss or provide reinsurance, notwithstanding the other terms and

	conditions of reinsurance.
Frequency	The number of claims occurring during a given coverage period.
Generally Accepted Accounting Principles in the United States	Also referred to as GAAP. Accounting principles as set forth in opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants and/or statements of the Financial Accounting Standards Board and/or their respective successors and which are applicable in the circumstances as of the date in question.
Gross premiums written	Total premiums for insurance written and assumed reinsurance during a given period.
Incurred but not reported (''IBNR'')	Reserves for estimated losses that have been incurred by insureds and reinsureds but not yet reported to the insurer or reinsurer, including unknown future developments on losses that are known to the insurer or reinsurer.
Layer	The interval between the retention or attachment point and the maximum limit of indemnity for which a reinsurer is responsible.
Line of business	The general classification of insurance written by insurers, e.g., fire, allied lines and homeowners, among others.
Loss; losses	An occurrence that is the basis for submission and/or payment of a claim. Whether losses are covered, limited or excluded from coverage is dependant on the terms of the policy.

Losses occurring contracts	Contracts that cover claims arising from loss events that occur during the term of the reinsurance contract, although not necessarily reported during the term of the contract.
Loss ratio	Net claims incurred expressed as a percentage of net earned premiums.
Loss reserve	For an individual loss, an estimate of the amount the insurer expects to pay for the reported claim. For total losses, estimates of expected payments for reported and unreported claims. These may include amounts for claims expenses.
Net claims and claim expenses	The expenses of settling claims net of recoveries, including legal and other fees and the portion of general expenses allocated to claim settlement costs (also known as claim adjustment expenses) plus losses incurred with respect to net claims.
Net premiums earned	The portion of net premiums written during or prior to a given period that was actually recognized as income during such period.
Net premiums written	

	Gross premiums written for a given period less premiums ceded to reinsurers and retrocessionaires during such period.
No claims bonus	A reduction of premiums assumed or ceded if no claims have been made within a specified period.
Non-proportional reinsurance	See ‘‘Excess of loss.’’
Perils	This term refers to the causes of possible loss in the property field, such as fire, windstorm, collision, hail, etc. In the casualty field, the term ‘‘hazard’’ is more frequently used.
Premiums; written, earned and unearned	The amount charged during the term on policies and contracts issued, renewed or reinsured by an insurance company or reinsurance company. Written premium is premium registered on the books of an issuer or reinsurer at the time a policy is issued and paid for. Unearned premium is premium for a future exposure period. Earned premium is written premium minus unearned premium for an individual policy.
Property insurance or reinsurance	Insurance or reinsurance that provides coverage to a person with an insurable interest in tangible property for that person’s property loss, damage or loss of use.
Property per risk treaty reinsurance	Reinsurance on a treaty basis of individual property risks insured by a ceding company.
Proportional reinsurance	A generic term describing all forms of reinsurance in which the reinsurer shares a proportional part of the original premiums and losses of the reinsured. (Also known as pro rata reinsurance, quota share reinsurance or participating reinsurance.) In proportional

	reinsurance the reinsurer generally pays the ceding company a ceding commission. The ceding commission generally is based on the ceding company’s cost of acquiring the business being reinsured (including commissions, premium taxes, assessments and miscellaneous administrative expense) and also may include a profit factor. See also ‘‘Quota Share Reinsurance’’ and ‘‘Surplus Share Reinsurance.’’
Quota share reinsurance	A form of proportional reinsurance in which the reinsurer assumes an agreed percentage of each insurance being reinsured and shares all premiums and losses according with the reinsured. See also ‘‘Proportional Reinsurance’’ and ‘‘Surplus Share Reinsurance.’’
Reinstatement premium	The premium charged for the restoration of the reinsurance limit of a catastrophe contract to its full

	amount after payment by the reinsurer of losses as a result of an occurrence.
Reinsurance	An arrangement in which an insurance company, the reinsurer, agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies. Reinsurance can provide a ceding company with several benefits, including a reduction in net liability on individual risks and catastrophe protection from large or multiple losses. Reinsurance also provides a ceding company with additional underwriting capacity by permitting it to accept larger risks and write more business than would be possible without a concomitant increase in capital and surplus, and facilitates the maintenance of acceptable financial ratios by the ceding company. Reinsurance does not legally discharge the primary insurer from its liability with respect to its obligations to the insured.
Retention	The amount or portion of risk that an insurer retains for its own account. Losses in excess of the retention level are paid by the reinsurer. In proportional treaties, the retention may be a percentage of the original policy's limit. In excess of loss business, the retention is a dollar amount of loss, a loss ratio or a percentage.
Retrocessional reinsurance; Retrocessionaire	A transaction whereby a reinsurer cedes to another reinsurer, the retrocessionaire, all or part of the reinsurance that the first reinsurer has assumed. Retrocessional reinsurance does not legally discharge the ceding reinsurer from its liability with respect to its obligations to the reinsured. Reinsurance companies cede risks to retrocessionaires for reasons similar to those that cause primary insurers to purchase reinsurance: to reduce net liability on individual risks, to protect against catastrophic losses, to stabilize financial ratios and to obtain additional underwriting capacity.
Risk excess of loss reinsurance	A form of excess of loss reinsurance that covers a loss of the reinsured on a single ''risk'' in excess of its retention level of the type reinsured, rather than to aggregate losses for all covered risks, as does catastrophe excess of loss reinsurance. A ''risk'' in this

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	context might mean the insurance coverage on one building or a group of buildings or the insurance coverage under a single policy, which the reinsured treats as a

	single risk.
Risks	A term used to denote the physical units of property at risk or the object of insurance protection that are not perils or hazards. Also defined as chance of loss or uncertainty of loss.
Risks attaching contracts	Contracts that cover claims that arise on underlying insurance policies that incept during the term of the reinsurance contract.
Specialty lines	Lines of insurance and reinsurance that provide coverage for risks that are often unusual or difficult to place and do not fit the underwriting criteria of standard commercial products carriers.
Statutory accounting principles (‘‘SAP’’)	Recording transactions and preparing financial statements in accordance with the rules and procedures prescribed or permitted by Bermuda and/or the U.S. state insurance regulatory authorities including the NAIC, which in general reflect a liquidating, rather than going concern, concept of accounting.
Stop loss	A form of reinsurance under which the reinsurer pays some or all of a cedant’s aggregate retained losses in excess of a predetermined dollar amount or in excess of a percentage of premium.
Submission	An unprocessed application for (i) insurance coverage forwarded to a primary insurer by a prospective policyholder or by a broker on behalf of such prospective policyholder, (ii) reinsurance coverage forwarded to a reinsurer by a prospective ceding insurer or by a broker or intermediary on behalf of such prospective ceding insurer or (iii) retrocessional coverage forwarded to a retrocessionaire by a prospective ceding reinsurer or by a broker or intermediary on behalf of such prospective ceding reinsurer.
Surplus share reinsurance	A form of pro rata reinsurance (proportional) indemnifying the ceding company against loss to the extent of the surplus insurance liability ceded, on a share basis similar to quota share. See also ‘‘Proportional Reinsurance’’ and ‘‘Quota Share Reinsurance.’’
Total managed cat premium	The total catastrophe reinsurance premiums written on a gross basis by our managed catastrophe joint ventures as well as by our wholly owned subsidiaries.
Treaty	A reinsurance agreement covering a book or class of business that is automatically accepted on a bulk basis by a reinsurer. A treaty contains common contract terms along with a specific risk definition, data on limit and retention, and provisions for premium and duration.
Underwriting	The insurer’s or reinsurer’s process of reviewing applications submitted for insurance coverage, deciding whether to accept all or part of the coverage requested and determining the applicable premiums.

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Underwriting capacity	The maximum amount that an insurance company can underwrite. The limit is generally determined by the company's retained earnings and investment capital. Reinsurance serves to increase a company's underwriting capacity by reducing its exposure from particular risks.
Underwriting expense ratio	The ratio of the sum of the acquisition expenses and operational expenses to net premiums earned, determined in accordance with GAAP.
Underwriting expenses	The aggregate of policy acquisition costs, including commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Unearned premium	The portion of premiums written representing the unexpired portions of the policies or contracts that the insurer or reinsurer has on its books as of a certain date.

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ITEM 2. PROPERTIES

We lease office space in Bermuda, which houses our executive offices and operations for both our Reinsurance and Individual Risk segments. In addition, our Individual Risk segment leases a number of offices in the U.S.; Stonington leases office space in Addison, Texas, and our other U.S. based subsidiaries currently lease office space in Richmond, Virginia; Raleigh, North Carolina; Houston, Texas; Stamford, Connecticut; and Chicago, Illinois. Our Reinsurance segment also leases office space in Dublin, Ireland. While we believe that for the foreseeable future our current office space is sufficient for us to conduct our operations, as we anticipate additional growth in our businesses, it is likely that we will need to expand into additional facilities to accommodate this growth. To date, the cost of acquiring and maintaining our office space has not been material.

ITEM 3. LEGAL PROCEEDINGS

We received a subpoena from the SEC in February 2005, a subpoena from the Office of 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 related 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 related to our business practice review and to our determination to restate our financial statements for the fiscal years ended December 31, 2003, 2002 and 2001. In addition, we understand that certain of our customers or reinsurers may have been asked to provide or have provided documents and information with respect to contracts to which we are a party in the framework of the ongoing industry-wide investigations.

On February 6, 2007, we announced that the SEC had accepted our offer of settlement to resolve the SEC's investigation, pursuant to which we have consented, without admitting or denying any wrongdoing, to entry of a final judgment enjoining future violations of certain provisions of the federal securities laws, and to pay disgorgement of $1 and a civil penalty of $15.0 million. We will also retain an independent consultant to review certain of our 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 our Board of Directors and certain additional procedures performed by our auditors in connection with their audit of our financial statements for the fiscal year ended December 31, 2004. The amount of the monetary penalty discussed above was provided for in 2005. At this time, the settlement remains subject to approval by the court. We can give no assurances that the settlement will receive the necessary approval from the court. If the settlement is not approved, we could be subject to different or additional remedies, both monetary and non-monetary, which could adversely affect our business or financial statements, perhaps materially. While we will strive to fully comply with the settlement agreement with the SEC, it is possible that the enforcement staff of the SEC or the independent consultant may take issue with our cooperation despite our efforts. Any such failure to comply with the settlement agreement or to be perceived to have failed to so comply could adversely affect us, perhaps materially so.

In September 2006, the SEC filed an enforcement action in the United States District Court for the Southern District of New York against James N. Stanard, our former Chairman and Chief Executive Officer, Martin J. Merritt, our former controller, and Michael W. Cash, a former officer of RenaissanceRe charging Messrs. Stanard, Merritt and Cash with violations of federal securities laws, including securities fraud, and seeks permanent injunctive relief, disgorgement of ill-gotten gains, if any, plus prejudgment interest, civil money penalties, and orders barring each defendant from acting as an officer or director of any public company. Mr. Merritt, without admitting or denying the allegations in the SEC's complaint, consented to a partial final judgment that will permanently enjoin him from violating or aiding or abetting future violations of the federal securities laws, bar him from serving as an officer or director of a public company, and defer the determination of civil penalties and disgorgement to a later date. In addition, Mr. Merritt agreed to an SEC administrative order barring him from appearing or practicing before the SEC as an accountant under Rule 102(e) of the SEC's Rules of Practice. This ongoing matter could give rise to additional costs, distractions, or impacts to our reputation. It is possible that the ongoing investigation into our former officers could

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give rise to additional investigations or proceedings being commenced against us and/or our current or former senior executives in connection with these matters, which could be criminal or civil.

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, which was amended in December 2006, 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 our business and financial condition in, among other things, SEC filings and public statements. The Consolidated Amended Complaint, as amended, seeks compensatory damages without specifying an amount.

On February 14, 2007, we executed a memorandum of understanding with plaintiffs' representatives setting forth an agreement in principle to settle the claims alleged in the Consolidated Amended Complaint, as amended. Pursuant to the terms of the agreement in principle, we did not make any admission of liability, and we continue to deny any and all liability in connection with the allegations of the Consolidated Amended Complaint, as amended. The total amount to be paid in settlement of the claims is $13.5 million. A portion of this amount is expected to be offset by insurance recoveries. These amounts have been provided for in our financial statements. The settlement provides for the full release of all parties, including the Company and our present and former directors and officers, including without limitation the defendants who were named in the suits. The settlement is subject to, among other things, court review and approval and other customary conditions.

Our operating subsidiaries are subject to claims litigation involving disputed interpretations of policy coverages. Generally, our 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 our subsidiaries which are typical to the insurance industry in general and in the normal course of business, are considered in our loss and loss expense reserves which are discussed in our 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 our business ventures. Any such litigation or arbitration contains an element of uncertainty, and we believe the inherent uncertainty in such matters may have increased recently and may continue to increase. Currently, we believe that no individual, normal course litigation or arbitration, to which we are presently a party, is likely to have a material adverse effect on our business or operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of RenaissanceRe's shareholders during the fourth quarter of 2006.

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PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER REPURCHASES OF EQUITY SECURITIES

PRICE RANGE OF COMMON SHARES

Our common shares began publicly trading on June 27, 1995. The New York Stock Exchange symbol of our common shares is ''RNR.'' The following table sets forth, for the periods indicated, the high and low prices per share of our common shares as reported in composite New York Stock Exchange trading:

	Price Range of Common Shares	
Period	High	Low

2006		
First Quarter	$ 48.48	$ 41.75
Second Quarter	48.66	41.28
Third Quarter	56.15	46.89
Fourth Quarter	60.50	54.28
2005		
First Quarter	$ 51.83	$ 46.20
Second Quarter	49.24	43.32
Third Quarter	49.40	42.16
Fourth Quarter	47.30	36.55

On February 12, 2007, the last reported sale price for our common shares was $52.31 per share. At February 12, 2007, there were 164 holders of record of our common shares and approximately 15,100 beneficial holders.

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PERFORMANCE GRAPH

The following graph compares the cumulative return on our common shares including reinvestment of our dividends on our Common Shares to such return for the Standard & Poor's (''S&P'') 500 Composite Stock Price Index (''S&P 500'') and S&P's Property-Casualty Industry Group Stock Price Index (''S&P P/C''), for the five-year period commencing January 1, 2002 and ending December 31, 2006, assuming $100 was invested on January 1, 2002. Each measurement point on the graph below represents the cumulative shareholder return as measured by the last sale price at the end of each calendar year during the period from January 1, 2002 through December 31, 2006. As depicted in the graph below, during this period, the cumulative return was (1) 103.9% on our common shares; (2) 35.0% for the S&P 500 Composite Stock Price Index; and (3) 61.3% for the S&P Property-Casualty Industry Stock Price Index.

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DIVIDEND POLICY

Historically, we have paid dividends on our common shares every quarter, and have increased our dividend during each of the eleven years since our initial public offering. The Board of Directors of RenaissanceRe declared regular quarterly dividends of $0.21 per share on March 15, June 15, September 15, and December 15, 2006. The Board of Directors declared regular quarterly dividends of $0.20 per share on March 15, June 15, September 15 and December 15, 2005. The declaration and payment of dividends are subject to the discretion of the Board and depend on, among other things, our financial condition, general business conditions, legal, contractual and regulatory restrictions regarding the payment of dividends by us and our subsidiaries and other factors which the Board may in the future consider to be relevant.

Below is a summary of stock repurchases for the quarter ended December 31, 2006 which in this period exclusively represented common stock withholdings from employee plan participants surrendered in respect of withholding tax obligations on the vesting of restricted stock, or upon the surrender of previously owned shares in lieu of cash payments for the exercise price of employee stock options.

	Shares repurchased	Average price per share	Maximum dollar amount still available for repurchases under program (in millions)
Beginning dollar amount available for repurchase			$149.3
October 1 - 31, 2006	115	$55.90	N/A
November 1 - 30, 2006	6,358	$56.16	N/A
December 1 - 31, 2006	444	$58.82	N/A
Total	6,917		$149.3

RenaissanceRe's Board has authorized a share repurchase program of $150.0 million. No shares were repurchased under this program in the quarter ended December 31, 2006. See Note 9 of our Notes to Consolidated Financial Statements for information regarding RenaissanceRe's stock repurchase plan.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set forth our selected financial data and other financial information at the end of and for each of the years in the five-year period ended December 31, 2006. This historical financial information was prepared in accordance with GAAP. The consolidated statement of operations data for the years ended December 31, 2006, 2005, 2004, 2003 and 2002 and the balance sheet data at December 31, 2006, 2005, 2004, 2003 and 2002 were derived from our consolidated financial statements. You should read the selected financial data in conjunction with our consolidated financial statements and related notes thereto and ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' included in this filing and all other information appearing elsewhere or incorporated into this filing by reference.

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Year ended December 31,	2006	2005	2004	2003	2002
(in thousands, except share and per share data and percentages)					
Statement of Operations Data:					
Gross premiums written	$1,943,647	$1,809,128	$1,544,157	$1,382,209	$1,173,049
Net premiums written	1,529,620	1,543,287	1,349,287	1,154,776	925,964
Net premiums earned	1,529,777	1,402,709	1,338,227	1,118,525	763,970
Net investment income	318,106	217,252	162,722	129,542	102,686
	(34,464)	(6,962)	23,442	80,504	10,177

Net realized (losses) gains on sales of investments					
Net claims and claim expenses incurred	446,230	1,635,656	1,096,299	369,181	314,525
Acquisition costs	280,697	237,594	244,930	194,140	95,644
Operational expenses	109,586	85,838	56,361	67,397	49,159
Underwriting income (loss)	693,264	(556,379)	(59,363)	487,807	304,642
Income (loss) before taxes and change in accounting principle	798,045	(246,763)	168,245	624,775	364,135
Net income (loss) available (attributable) to common shareholders	761,635	(281,413)	133,108	605,992	342,879
Earnings (loss) per common share – diluted (1)	10.57	(3.99)	1.85	8.53	4.88
Dividends per common share	0.84	0.80	0.76	0.60	0.57
Weighted average common shares outstanding	72,073	70,592	71,774	71,002	70,211
Return on average common equity	36.3%	(13.6%)	6.2%	33.8%	27.0%
At December 31,	2006	2005	2004	2003	2002
Balance Sheet Data:					
Total investments	$6,342,805	$5,291,153	$4,826,249	$4,159,081	$3,077,901
Total assets	7,769,026	6,871,261	5,526,318	4,729,702	3,747,173
Reserve for claims and claim expenses	2,098,155	2,614,551	1,459,398	977,892	804,795
Reserve for unearned premiums	578,424	501,744	365,335	349,824	331,985
Debt	450,000	500,000	350,000	350,000	275,000
Subordinated obligation to capital trust	103,093	103,093	103,093	103,093	—
Company obligated mandatorily redeemable capital securities of a subsidiary trust holding solely junior subordinated debentures of RenaissanceRe	—	—	—	—	84,630
Preferred shares	800,000	500,000	500,000	250,000	150,000
Total shareholders' equity attributable to common shareholders	2,480,497	1,753,840	2,144,042	2,084,643	1,490,690
Total shareholders' equity	3,280,497	2,253,840	2,644,042	2,334,643	1,640,690
Common shares outstanding	72,140	71,523	71,029	70,399	69,750
Book value per common share	$ 34.38	$ 24.52	$ 30.19	$ 29.61	$ 21.37
Accumulated dividends	6.12	5.28	4.48	3.72	3.12
Book value per common share plus accumulated dividends	$ 40.50	$ 29.80	$ 34.67	$ 33.33	$ 24.49

(1) Earnings (loss) per common share – diluted was calculated by dividing net income (loss) available (attributable) to common shareholders by the number of weighted average common shares and common share equivalents outstanding. Common share equivalents are calculated on the basis of the treasury stock method. In accordance with FAS 128, diluted earnings per share calculations use weighted average common shares outstanding – basic, when in a net loss position.

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Year ended December 31,	2006	2005	2004	2003	2002
(in thousands, except ratios)					
Segment Information:					
Reinsurance					
Gross premiums written (1)	$1,321,163	$1,202,975	$1,084,896	$956,257	$912,695
Net premiums written	1,039,103	1,024,010	930,946	792,022	698,863
Underwriting income (loss)	636,236	(461,540)	46,389	455,777	286,713
Net claims and claim expense ratio	15.2%	132.2%	79.0%	25.9%	40.9%
Underwriting expense ratio	19.3%	16.5%	16.1%	18.0%	16.4%
Combined ratio	34.5%	148.7%	95.1%	43.9%	57.3%
Individual Risk					
Gross premiums written	$ 689,392	$ 651,430	$ 478,092	$446,724	$282,579
Net premiums written	490,517	519,277	418,341	362,754	227,101
Underwriting income (loss)	57,028	(94,839)	(105,752)	32,030	17,929
Net claims and claim expense ratio	53.5%	84.1%	89.0%	51.7%	43.2%
Underwriting expense ratio	36.3%	36.7%	37.9%	37.8%	37.5%
Combined ratio	89.8%	120.8%	126.9%	89.5%	80.7%

(1) Includes $66.9 million, $45.3 million, $18.8 million, $20.8 million and $22.2 million of premium assumed from our Individual Risk segment in the years ended December 31, 2006, 2005, 2004, 2003 and 2002, respectively.

ITEM 7. 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 year ended December 31, 2006 compared with the years ended December 31, 2005 and 2004. The following also includes a discussion of our liquidity and capital resources at December 31, 2006. This discussion and analysis should be read in conjunction with the audited consolidated financial statements and related notes included in this filing. 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. See ''Note on Forward-Looking Statements.''

OVERVIEW

RenaissanceRe, established in Bermuda in 1993 to write principally property catastrophe reinsurance, is today a leading global provider of reinsurance and insurance. Through our operating subsidiaries, we seek to obtain a portfolio of reinsurance, insurance and financial risks in each of our businesses that are significantly better than the market average and produce an attractive return on equity. Overall, our strategy focuses on superior risk selection, active capital management, superior utilization of risk management and information systems, the development and enhancement of a high performance and ethical culture and our commitment to our clients and joint venture partners. We provide value to our clients in the form of financial security, innovative products, and responsive service. We are known as a leader in paying valid reinsurance claims promptly. We measure our financial success through long-term growth in tangible book value per common share plus accumulated dividends, which we believe is the most appropriate measure of the performance of our Company, and believe we have delivered superior performance in respect of this measure in the past.

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

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that we cover. Accordingly, we expect a significant degree of volatility in our financial results and that our financial results may vary significantly from quarter-to-quarter or from year-to-year, based on the level of insured catastrophic losses occurring around the world.

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 third parties with respect to the net income (loss) 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.

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 fiscal years, divided by net premiums earned.

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 we are 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, explosions and acts of terrorism. 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, casualty clash, certain casualty lines and other specialty lines of reinsurance that we collectively refer to as specialty reinsurance. We believe that we are seen as a market leader in certain of these classes of business, such as catastrophe-exposed workers' compensation, surety, terrorism and casualty clash.

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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, Starbound and Tim Re; 2) customized reinsurance transactions, such as offering participations in our catastrophe portfolio; and 3) investments in other market participants, such as our investments in Channel Re 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 and certain reinsurance transactions, are included in our Reinsurance segment results; our share of the results of Top Layer Re, Channel Re, 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 insurance contracts and quota share reinsurance with respect to risks including: 1) commercial multi-line, which includes commercial property and liability coverage, such as general liability, automobile liability and physical damage, building and contents, professional liability and various specialty products, and multi-peril crop insurance; 2) commercial property, which principally includes catastrophe-exposed commercial property products; and 3) personal lines property, which principally includes homeowners personal lines property coverage and catastrophe exposed personal lines property coverage.

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 and Stonington Lloyds, which write on an admitted basis. As noted above, in our Individual Risk business, 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, 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.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

Claims and Claim Expense Reserves

General Description

We believe the most significant accounting judgment made by management is our estimate of claims and claim expense reserves. Claims and claim expense reserves represent estimates, including actuarial

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and statistical projections at a given point in time, of the ultimate settlement and administration costs for unpaid claims and claim expenses arising from the insurance and reinsurance contracts we sell. We establish our claims and claim expense reserves by taking claims reported to us by insureds and ceding companies, but which have not yet been paid (‘‘case reserves’’), adding the costs for additional case reserves (‘‘additional case reserves’’) which represent our estimates for claims previously reported to us which we believe may not be adequately reserved as of that date, and adding estimates for the anticipated cost of claims incurred but not yet reported to us (‘‘IBNR’’).

The following table summarizes our claims and claim expense reserves by line of business and split between case reserves, additional case reserves and IBNR at December 31, 2006 and 2005:

At December 31, 2006	Case Reserves	Additional Case Reserves	IBNR	Total
(in thousands)				
Property catastrophe reinsurance	$ 366,337	$ 282,544	$ 226,579	$ 875,460
Specialty reinsurance	104,010	77,315	412,466	593,791
Total Reinsurance	470,347	359,859	639,045	1,469,251

Individual Risk	272,119	15,611	341,174	628,904
Total	$ 742,466	$ 375,470	$ 980,219	$ 2,098,155

At December 31, 2005 (in thousands)				
Property catastrophe reinsurance	$ 544,750	$ 576,992	$ 207,087	$ 1,328,829
Specialty reinsurance	180,868	95,312	414,445	690,625
Total Reinsurance	725,618	672,304	621,532	2,019,454
Individual Risk	194,016	—	401,081	595,097
Total	$ 919,634	$ 672,304	$ 1,022,613	$ 2,614,551

Our estimates of claims and claim expense reserves are not precise in that, among other matters, they are based on predictions of future developments and estimates of future trends and other variable factors. Some, but not all, of our reserves are further subject to the uncertainty inherent in actuarial methodologies and estimates. Because a reserve estimate is simply an insurer's estimate at a point in time of its ultimate liability, and because there are numerous factors which affect reserves and claims payments but cannot be determined with certainty in advance, our ultimate payments will vary, perhaps materially, from our estimates of reserves. If we determine in a subsequent period that adjustments to our previously established reserves are appropriate, such adjustments are recorded in the period in which they are identified. During the twelve months ended December 31, 2006, 2005 and 2004, changes to prior year estimated claims reserves increased our net income by $136.6 million, reduced our net loss by $241.5 million and increased our net income by $140.3 million, respectively.

A 10% change to our reserves at December 31, 2006 would equate to a $209.8 million adjustment to net claims and claim expenses incurred, which represents 27.5% of our net income available to common shareholders for the year ended 2006, and 6.4% of shareholders' equity at December 31, 2006. During 2007, we intend to develop an analytical approach to quantifying reasonably likely changes to the variability of our key reserving assumptions embedded in our reserving estimation techniques. We will include the results of this analysis in our Annual Report on Form 10-K for the year ended December 31, 2007.

Our reserving methodology for each line of business uses a loss reserving process that calculates a point estimate for the Company's ultimate settlement and administration costs for claims and claim expenses. We do not calculate a range of estimates. We use this point estimate, along with paid claims and case reserves, to record our best estimate of additional case reserves and IBNR in our financial statements. Under GAAP, we are not permitted to establish estimates for catastrophe claims and claim expense reserves until an event occurs that gives rise to a loss.

Our claims and claim expense reserves are reviewed annually by an independent actuarial firm. The actuarial firm performs this work for the purpose of issuing an actuarial opinion on the reasonableness of the claims and claim expense reserves for each of the Company's insurance subsidiaries. The actuarial opinions are required to meet various insurance regulatory requirements. The actuarial firm discusses its conclusions with management and presents its findings to the Audit Committee of the Board of Directors of the Company. Although we do not explicitly rely on the work performed by the actuarial firm for estimating our reserves for claims and claim expenses, we compare our recorded claims and claim expense reserves to those estimated by the actuarial firm to determine whether our estimates are within the actuarial firm's reasonable range of estimates. To date, our estimates of claims and claim expense reserves have been within the actuarial firm's reasonable range of estimates.

Reserving for our reinsurance claims involves other uncertainties, such as the dependence on information from ceding companies, which among other matters, includes the time lag inherent in reporting information from the primary insurer to us or to our ceding companies 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 claims and case reserves. We sometimes also receive an estimate or provision for IBNR. This information is often updated and adjusted from time-to-time during the loss settlement period as new data or facts in respect of initial claims, client accounts, industry or event trends may be reported or emerge in addition to changes in applicable statutory and case laws.

During 2005, we incurred significant losses from hurricanes Katrina, Rita and Wilma. 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, our loss estimates. Our actual losses from these events will likely vary, perhaps materially, from our current estimates due to the inherent uncertainties in reserving for such losses, 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, and complex coverage and other legal issues.

Because of the inherent uncertainties discussed above, we have developed a reserving philosophy which attempts to incorporate prudent assumptions and estimates, and we have generally experienced favorable development on prior year reserves in the last several years. However, there is no assurance that this will occur in future periods.

Our reserving techniques, assumptions and processes differ between our Reinsurance and Individual Risk segments, as well as between our property catastrophe reinsurance and specialty reinsurance businesses within our Reinsurance segment. Following is a discussion of the risks we insure and reinsure, the reserving techniques, assumptions and processes we follow to estimate our claims and claim expense reserves, and our current estimates versus our initial estimates of our claims reserves, for each of these units.

Reinsurance Segment

Property Catastrophe Reinsurance

Within our property catastrophe reinsurance unit, we principally write property catastrophe excess of loss reinsurance contracts to insure insurance and reinsurance companies against natural and man-made catastrophes. Under these contracts, we indemnify an insurer or reinsurer when its aggregate paid claims and claim expenses from a single occurrence of a covered peril exceed the attachment point specified in the contract, up to an amount per loss specified in the contract. Our most significant exposure is to losses from earthquakes and hurricanes and other windstorms, although we are also exposed to claims arising from other catastrophes, such as tsunamis, freezes, floods, fires,

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tornadoes, explosions and acts of terrorism. Our predominant exposure under such coverage is to property damage. However, other risks, including business interruption and other non-property losses, may also be covered under our property catastrophe reinsurance contracts when arising from a covered peril. Our coverages are offered on either a worldwide basis or are limited to selected geographic areas.

Coverage can also vary from ‘‘all property’’ perils to limited coverage on selected perils, such as ‘‘earthquake only’’ coverage. We also enter into retrocessional contracts that provide property catastrophe coverage to other reinsurers or retrocedants. This coverage is generally in the form of excess of loss retrocessional contracts and may cover all perils and exposures on a worldwide basis or be limited in scope to selected geographic areas, perils and/or exposures. The exposures we assume from retrocessional business can change within a contract term as the underwriters of a retrocedant may alter their book of business after the retrocessional coverage has been bound. We also offer dual trigger reinsurance contracts which require us to pay claims based on claims incurred by insurers and reinsurers in addition to the estimate of insured industry losses as reported by referenced statistical reporting agencies.

Our property catastrophe reinsurance business is generally characterized by loss events of low frequency and high severity. Initial reporting of paid and incurred claims in general, tends to be relatively prompt. We consider this business ‘‘short-tail’’ as compared to the reporting of claims for ‘‘long-tail’’ products, which tends to be slower. However, the timing of claims payment and reporting also varies depending on various factors, including: whether the claims arise under reinsurance of primary insurance companies or reinsurance of other reinsurance companies; the nature of the events (e.g., hurricanes, earthquakes or terrorism); the geographic area involved; post-event inflation which may cause the cost to repair damaged property to increase significantly from current estimates, or for property claims to remain open for a longer period of time, due to limitations on the supply of building materials, labor and other resources; and the quality of each client’s claims management and reserving practices. Management’s judgments regarding these factors are reflected in our claims reserve estimates.

Reserving for substantially all of our property catastrophe reinsurance business does not involve the use of traditional actuarial techniques. Rather, claims and claim expense reserves are estimated by management after a catastrophe occurs by completing an in-depth analysis of the individual contracts which may potentially be impacted by the catastrophic event. The in-depth analysis generally involves: 1) estimating the size of insured industry losses from the catastrophic event; 2) reviewing our portfolio of reinsurance contracts to identify those contracts which are exposed to the catastrophic event; 3) reviewing information reported by clients and brokers; 4) discussing the event with our clients and brokers; and 5) estimating the ultimate expected cost to settle all claims and administrative costs arising from the catastrophic event on a contract-by-contract basis and in aggregate for the event. Once an event has occurred, during the then current reporting period we record our best estimate of the ultimate expected cost to settle all claims arising from the event. Our estimate of claims and claim expense reserves is then determined by deducting cumulative paid losses from our estimate of the ultimate expected loss for an event and our estimate of IBNR is determined by deducting cumulative paid losses, case reserves and additional case reserves from our estimate of the ultimate expected loss for an event. Once we receive a notice of loss or payment request under a catastrophe reinsurance contract, we are generally able to process and pay such claims promptly.

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 as part of our loss reserve estimation process. We also review catastrophe bulletins published by various statistical reporting agencies to assist us in determining the size of the industry loss, although these reports may not be available for some time after an event. In addition to the loss information and estimates communicated by cedants and brokers, we also use industry information which we gather and retain in our REMS© modeling system. The information stored in our REMS© modeling system enables us to analyze each of our policies against a 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

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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.

For smaller events including localized severe weather events such as windstorms, hail, ice, snow, flooding, freezing and tornadoes, which are not necessarily prominent, public occurrences, we initially place greater reliance on catastrophe bulletins published by statistical reporting agencies to assist us in determining what events occurred during the reporting period than we do for large events. This includes reviewing Catastrophe Bulletins published by Property Claim Services for U.S. catastrophes. We set our initial estimates of reserves for claims and claim expenses for these smaller events based on a combination of our historical market share for these types of losses and the estimate of the total insured industry property losses as reported by statistical reporting agencies, although we generally make significant adjustments based on our current exposure to the geographic region involved as well as the size of the loss and the peril involved. This approach supplements our approach for estimating losses for larger catastrophes, which as discussed above, includes discussions with brokers and ceding companies, reviewing individual contracts impacted by the event, and modeling the loss in our REMS© system.

In general, our property catastrophe reinsurance reserves for our more recent reinsured catastrophic events are subject to greater uncertainty and, therefore, greater potential variability, and are likely to experience material changes from one period to the next. This is due to the uncertainty as to the size of the industry losses from the event, uncertainty as to which contracts have been exposed to the catastrophic event, and uncertainty as to the magnitude of claims incurred by our clients. As our property catastrophe reinsurance reserves age, more information becomes available and we believe our estimates become more certain, although there is no assurance this trend will continue in the future. As seen in the Actual vs. Initial Expected Property Catastrophe Reinsurance Claims and Claim Expenses Reserve Analysis table below, 67.3% of our inception to date claims and claim expenses in our property catastrophe reinsurance unit were incurred in the 2004 and 2005 accident years, due principally to the losses from hurricanes Charley, Frances, Ivan, Jeanne, Katrina, Rita and Wilma. Due to the size and complexity of the losses in these accident years, there still remains significant uncertainty as to the ultimate settlement costs associated with these accident years.

Within our property catastrophe reinsurance business, we seek to review substantially all of our claims and claim expense reserves quarterly. Our quarterly review procedures include identifying events that have occurred up to the latest balance sheet date, determining our best estimate of the ultimate expected cost to settle all claims and administrative costs associated with those new events which have arisen during the reporting period, and reviewing the ultimate expected cost to settle claims and administrative costs associated with those events which occurred during previous periods. This process is judgmental in that it involves reviewing changes in paid and reported losses each period and adjusting our estimates of the ultimate expected losses for each event if there are developments that are different from our previous expectations. If we determine that adjustments to an earlier estimate are appropriate, such adjustments are recorded in the period in which they are identified. During the twelve months ended December 31, 2006, 2005 and 2004, changes to our prior year estimated claims reserves in our property catastrophe reinsurance unit decreased our net income by $13.9 million, reduced our net loss by $61.8 million and increased our net income by $67.2 million, respectively.

Actual Results vs. Initial Estimates

The table below summarizes our initial assumptions and changes in those assumptions for claims and claim expense reserves within our property catastrophe reinsurance unit. As discussed above, the key assumption in estimating reserves for our property catastrophe reinsurance unit is our estimate of ultimate claims and claim expenses. The table shows our initial estimates of ultimate claims and claim expenses for each accident year and how these initial estimates have developed over time. The initial estimate of accident year claims and claim expenses represents our estimate of the ultimate settlement and administration costs for claims incurred from catastrophic events occurring during a particular

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accident year, and as reported as of December 31 of that year. The re-estimated ultimate claims and claim expenses as of December 31, 2004, 2005 and 2006 represent our revised estimates as reported as of those dates. The cumulative favorable (adverse) development shows how our most recent estimates as reported at December 31, 2006 differ from our initial accident year estimates. Favorable development implies that our current estimates are lower than our initial estimates while adverse development implies that our current estimates are higher than our original estimates. Total reserves as of December 31, 2006 reflect the unpaid portion of our estimates of ultimate claims and claim expenses. The table is presented on a gross loss basis and therefore does not include the benefit of reinsurance recoveries.

Actual vs. Initial Expected Property Catastrophe Reinsurance Claims and Claim Expenses Reserve Analysis

(in thousands)		Re-estimated Ultimate Claims and Claim Expenses as of December 31,						
Accident Year	Initial Estimate of Ultimate Claims and Claim Expenses	2004	2005	2006	Cumulative Favorable (Adverse) Development	% Decrease (Increase) from Initial Ultimate	Total Reserves as of December 31, 2006	% of Clain Unpaid as December 3 2006
2000 and Prior	$ 735,850	$ 701,626	$ 644,381	$ 644,724	$ 91,126	12.4%	$ 28,713	4.5%
2001	257,285	252,761	226,920	226,261	31,024	12.1	51,227	22.6
2002	155,573	116,071	78,699	75,967	79,606	51.2	13,935	18.3
2003	126,312	119,182	85,316	79,099	47,213	37.4	13,682	17.3
2004	762,392	762,392	868,148	857,537	(95,145)	(12.5)	88,438	10.3
2005	1,473,974	—	1,473,974	1,501,226	(27,252)	(1.8)	589,033	39.2
2006	121,754	—	—	121,754	—	—	90,432	74.3
Total	$3,633,140	$1,952,032	$3,377,438	$3,506,568	$126,572	3.5%	$875,460	25.0%

As quantified in the table above, since the inception of the Company in 1993 we have experienced $126.6 million of cumulative favorable development on the run-off of our reserves within our property catastrophe reinsurance unit. This represents 3.5% of our inception to date gross claims and claim expenses of $3.5 billion and is calculated based on our estimates of claims and claim expense reserves as of December 31, 2006, compared to our initial estimates of ultimate claims and claim expenses. As described above, given the complexity in reserving for claims and claims expenses associated with catastrophe losses for property catastrophe excess of loss reinsurance contracts, we have experienced development, both favorable and unfavorable, in any given accident year in amounts that exceed our inception to date percentage of 3.5%. For example, our 2002 accident year developed favorably by $79.6 million, which is 51.2% better than our initial estimates of claims and claim expense for the 2002 accident year as estimated as of December 31, 2002, while our 2004 accident year developed unfavorably by $95.1 million, or 12.5%. On a net basis our cumulative favorable or unfavorable development is generally reduced by offsetting changes in our reinsurance recoverables, as well as changes to loss related premiums such as reinstatement premiums, both of which generally move in the opposite direction to changes in our ultimate claims and claim expenses.

The percentage of claims unpaid at December 31, 2006 for each accident year reflects both the speed to which claims and claim expenses for each accident year have been paid and our estimate of claims and claim expenses for that accident year. As seen above, claims and claim expenses for the 2004 accident year have been paid quickly compared to prior accident years. This is due to the fact that hurricanes Charley, Frances, Ivan and Jeanne which occurred in 2004 have been rapid claims paying events. This is driven in part by the mix of our business in Florida, which primarily includes property catastrophe excess of loss reinsurance for personal lines property coverage rather than commercial property coverage or retrocessional coverage, and the speed of the settlement and payment of claims by our underlying cedants. In contrast, our 2001 accident year, which includes losses from the events of September 11, 2001, and our 2005 accident year, which includes significant losses from hurricane Katrina, includes a higher mix of commercial business where the underlying claims of our cedants tend to be settled and paid more slowly. In addition, claims from our underlying cedants for the 2001

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and 2005 accident years are subject to more complex coverage and legal matters due to the complexity of the catastrophic events taking place in those years.

Specialty Reinsurance

Within our specialty reinsurance business unit we write a number of reinsurance lines such as catastrophe exposed workers' compensation, surety, terrorism, medical malpractice, casualty clash, property per risk and other specialty lines of reinsurance, which we collectively refer to as specialty reinsurance. We offer our specialty reinsurance products principally on an excess of loss basis, as described above with respect to our property catastrophe reinsurance products, and we also provide some proportional coverage. In a proportional reinsurance arrangement (also referred to as quota share reinsurance or pro-rata reinsurance), the reinsurer shares a proportional part of the original premiums and losses of the reinsured. We offer our specialty reinsurance products to insurance companies and other reinsurance companies and provide coverage for specific geographic regions or on a worldwide basis. We expanded our specialty reinsurance business in 2002 and have significantly increased our presence in the specialty reinsurance market since that time.

Our specialty reinsurance business can generally be characterized as providing coverage for low frequency and high severity losses, similar to our property catastrophe reinsurance business. As with our property catastrophe reinsurance business, our specialty reinsurance contracts frequently provide coverage for relatively large limits or exposures. As a result of the foregoing, our specialty reinsurance business is subject to significant claims volatility. In periods of low claims frequency or severity our results will generally be favorably impacted while in periods of high claims frequency or severity our results will generally be negatively impacted.

Our processes and methodologies in respect of loss estimation for the coverages we offer through our specialty reinsurance operation differ from those used for our property catastrophe-oriented coverages. For example, our specialty reinsurance coverages are more likely to be impacted by factors such as long-term inflation and changes in the social and legal environment, which we believe gives rise to greater uncertainty in our claims reserves. Moreover, in reserving for our specialty reinsurance coverages we do not have the benefit of a significant amount of our own historical experience in these lines. We believe this makes our specialty reinsurance reserving subject to greater uncertainty than our property catastrophe reinsurance unit.

When initially developing our reserving techniques for our specialty reinsurance coverages, we considered estimating reserves utilizing several actuarial techniques such as paid and incurred development methods. We elected to use the Bornhuetter-Ferguson technique because this method is appropriate for lines of business, such as our specialty reinsurance business, where there is a lack of historical claims experience. This method allows for greater weight to be applied to expected results in periods where little or no actual experience is available, and, hence, is less susceptible to the potential pitfall of being excessively swayed by one year or one quarter of actual paid and/or reported loss data. This method uses initial expected loss ratio expectations to the extent that losses are not paid or reported, and it assumes that past experience is not fully representative of the future. As the Company’s reserves for claims and claim expenses age, and actual claims experience becomes available, this method places less weight on expected experience and places more weight on actual experience. We reevaluate our actuarial reserving techniques on a periodic basis.

The utilization of the Bornhuetter-Ferguson technique requires us to estimate an expected ultimate claims and claim expense ratio and select an expected loss reporting pattern. We select our estimates of the expected ultimate claims and claim expense ratios and expected loss reporting patterns by reviewing industry standards and adjusting these standards based upon the terms of the coverages we offer. The estimated expected 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. Our estimate of IBNR is the product of the premium we have earned, the initial expected ultimate claims and claim expense ratio and the percentage of estimated unreported losses. In addition, certain of our specialty reinsurance coverages may be impacted by natural and man-made

catastrophes. We estimate claim reserves for these losses after the event giving rise to these losses occurs, following a process that is similar to our property catastrophe reinsurance unit described above.

Within our specialty reinsurance business, we seek to review substantially all of our claims and claim expense reserves quarterly. Typically, our quarterly review procedures include reviewing paid and reported claims in the most recent reporting period, reviewing the development of paid and reported claims from prior periods, and reviewing our overall experience by underwriting year and in the aggregate. We monitor our expected ultimate claims and claim expenses ratios and expected loss reporting assumptions on a quarterly basis and compare them to our actual experience. These actuarial assumptions are generally reviewed annually, based on input from our actuaries, underwriters, claims personnel and finance professionals, although adjustments may be made more frequently if needed. Assumption changes are made to adjust for changes in the pricing and terms of coverage we provide, changes in industry standards, as well as our actual experience, to the extent we have enough data to rely on our own experience. If we determine that adjustments to an earlier estimate are appropriate, such adjustments are recorded in the period in which they are identified. During the twelve months ended December 31, 2006, 2005 and 2004, changes to our prior year estimated claims reserves in our specialty reinsurance unit increased our net income by $139.2 million, reduced our net loss by $169.6 million and increased our net income by $46.6 million, respectively.

Actual Results vs. Initial Estimates

The Actual vs. Initial Expected Ultimate Claims and Claim Expenses Ratio table below summarizes our key actuarial assumptions in reserving for our specialty reinsurance business. As noted above, the key actuarial assumptions include the estimated ultimate claims and claim expense ratios and the estimated loss reporting patterns. The table shows our initial estimates of the ultimate claims and claim expenses ratio by underwriting year. The table shows how our initial estimates of these ratios have developed over time; with the re-estimated ratios reflecting a combination of the amount and timing of paid and reported losses compared to our initial estimates. The initial estimate is based on the actuarial assumptions that were in place at the end of that year. A decrease in the ultimate claims and claim expense ratio implies that our current estimates are lower than our initial estimates while an increase in the ultimate claims and claim expense ratio implies that our current estimates are higher than our initial estimates. The result would be a corresponding favorable impact on shareholders' equity and net income or a corresponding unfavorable impact on shareholders' equity and net income, respectively. The table also shows how our initial estimated ultimate claims and claim expense ratios have changed from one underwriting year to the next. The table below reflects a summary of the weighted average assumptions for all classes of business written within our specialty reinsurance unit. The table is presented on a gross loss basis and therefore does not include the benefit of reinsurance recoveries.

Actual vs. Initial Expected Specialty Reinsurance Claims and Claim Expenses Reserve Analysis — Estimated Ultimate Claims and Claim Expenses Ratio

	Estimated Expected Ultimate Claims and Claim Expenses Ratio			
			Re-estimate as of	
Underwriting Year	Initial Estimate	December 31, 2004	December 31, 2005	December 31, 2006
2002	77.6%	49.2%	32.6%	29.7%
2003	76.8	53.4	35.4	31.1
2004	77.9	73.7	63.8	58.7
2005	78.8	—	72.0	55.4
2006	76.6	—	—	57.6

The table above shows that our initial estimated expected ultimate claims and claim expense ratios for attritional losses for each new underwriting year within our specialty reinsurance unit have stayed relatively constant between 76.6% and 78.8% over the last five years. This reflects the fact that

management has not made significant changes to its initial estimates of expected ultimate claims and claim expense ratios from one underwriting year to the next. The principal reason for the modest changes from one underwriting year to the next is that the mix of business has changed. For example, the mix of business for the 2006 underwriting year has a lower initial expected ultimate claims and claim expense ratio than in prior years as it is more heavily weighted to business that is expected to produce a lower level of losses.

As each underwriting year has developed, our re-estimated expected ultimate claims and claim expense ratios have decreased. In particular, our re-estimated expected ultimate claims and claim expense ratios decreased significantly between December 31, 2004 and December 31, 2005. This was principally due to our 2005 reserve review, discussed below. During our 2005 reserve review, we further segmented the specialty business with the aim of grouping risks into more homogeneous categories which respond to the evolution of actual exposures. This became possible as the volume of this business increased over the three preceding years. This further segmentation required the selection of loss reporting patterns to be applied to these new groups. We also updated our assumptions for our original loss reporting patterns based on a combination of new industry information and actual experience accumulated over the three preceding years. The assumptions for the new loss reporting patterns were applied to all prior underwriting years. In addition, we made explicit allowances for commuted contracts whereas previously these were considered in the overall reserving assumptions. We also reviewed substantially all of our case reserves and additional case reserves. The result of the foregoing was a decrease in our specialty reinsurance re-estimated ultimate claims and claim expense reserves in 2005. Subsequent to this reserve review, the specialty book of business has continued to perform better than expected. This includes favorable development within the 2006 underwriting year as actual paid and reported losses during 2006 have been less than expected, which has resulted in a reduction in our expected ultimate claims and claim expense ratio for this year. However, there is no assurance that this trend will continue in the future. As noted above, our specialty reinsurance business is characterized by events of low frequency and high severity which results in actual experience that can be significantly better or worse than long term trends or industry standards may imply.

As noted above, some of our specialty reinsurance contracts are exposed to net claims and claim expenses from large natural and man-made catastrophes. Net claims and claim expenses from these large catastrophes are reserved for after the event which gave rise to the claims in a manner which is consistent with our property catastrophe reinsurance reserving practices as discussed above. The large catastrophes occurring during the period from 2002 to 2006, principally include hurricanes Katrina, Rita and Wilma which occurred in 2005. Our estimate of ultimate net claims and claim expenses from hurricanes Katrina, Rita and Wilma within our specialty reinsurance unit, net of reinsurance recoveries and assumed and ceded loss related premium, totaled $98.8 million and $77.1 million as of December 31, 2005 and 2006, respectively.

Individual Risk Segment

We define our Individual Risk segment to include underwriting that involves understanding the characteristics of the underlying insurance policy. Our principal contracts include insurance contracts and quota share reinsurance with respect to risks including: 1) commercial multi-line, which includes commercial property and liability coverage, such as general liability, automobile liability and physical damage, building and contents, professional liability and various specialty products, and multi-peril crop insurance; 2) commercial property, which principally includes catastrophe-exposed commercial property products; and 3) personal lines property, which principally includes homeowners personal lines property coverage and catastrophe exposed personal lines property coverage. We expanded our Individual Risk operations in 2003 and started writing a significant amount of this business in that year.

We use the Bornhuetter-Ferguson technique to estimate claims and claim expenses within our Individual Risk segment. The comments discussed above relating to our reserving techniques and processes for our specialty reinsurance unit also apply to our Individual Risk segment.

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During the twelve months ended December 31, 2006, 2005 and 2004, changes to our prior year estimated claims reserves in our Individual Risk unit increased our net income by $11.3 million, reduced our net loss by $10.1 million and increased our net income by $26.4 million, respectively.

Actual Results vs. Initial Estimates

The Actual vs. Initial Expected Ultimate Claims and Claim Expense Ratio table below summarizes our key actuarial assumptions in reserving for our Individual Risk unit. As noted above, the key actuarial assumptions include the estimated ultimate claims and claim expense ratios and the estimated loss reporting patterns. The table shows our initial estimates of the ultimate claims and claim expenses ratio by accident year. The table shows how our initial estimates of these ratios have developed over time; with the re-estimated ratios reflecting a combination of the amount and timing of paid and reported losses compared to our initial estimates. The initial estimate is based on the actuarial assumptions that were in place at the end of each fiscal year. A decrease in the ultimate claims and claim expense ratio implies that our current estimates are lower than our initial estimates while an increase in the ultimate claims and claim expense ratio implies that our current estimates are higher than our initial estimates. The result would be a corresponding favorable impact on shareholders' equity and net income or a corresponding unfavorable impact on shareholders' equity and net income, respectively. The table also shows how our initial estimated ultimate claims and claim expense ratios have changed from one accident year to the next. The table below reflects a summary of the weighted average assumptions for all classes of business written within our Individual Risk unit. The table is presented on a gross loss basis and therefore does not include the benefit of reinsurance recoveries.

Actual vs. Initial Expected Individual Risk Segment Claims and Claim Expenses Reserve Analysis – Estimated Ultimate Claims and Claim Expenses Ratio

	Estimated Expected Ultimate Claims and Claim Expenses Ratio			
		Re-estimate as of		
Accident Year	Initial Estimate	December 31, 2004	December 31, 2005	December 31, 2006
2003	55.3%	40.9%	35.1%	38.2%
2004	59.2	53.8	47.4	48.9
2005	51.9	—	56.5	49.5
2006	55.8	—	—	54.1

The table above shows that our initial estimated expected ultimate claims and claim expense ratios for attritional losses for each new accident year within our Individual Risk segment have stayed relatively constant at between 51.9% and 59.2% over the last four years. This reflects the fact that management has not made significant changes to its estimated initial expected ultimate claims and claim expenses ratio from one period to the next. The principal reason for the changes from one year to the next is that the mix of business has changed. For example, the mix of business for the 2006 accident year has a higher initial expected ultimate claims and claim expense ratio than in 2005 as it is more heavily weighted by business that is expected to produce higher losses. As each accident year has developed, our re-estimated expected ultimate claims and claim expense ratios have generally been reduced. This reflects the impact of actual experience in our Individual Risk business where actual paid and reported losses to date for attritional losses are less than originally expected. As described above, under the Bornhuetter-Ferguson actuarial technique less weight is placed on initial estimates and more weight is placed on actual experience as our claims and claim expense reserves age.

As noted above, some of our Individual Risk contracts are exposed to net claims and claim expenses from large natural and man-made catastrophes. Net claims and claim expenses from these large catastrophes are reserved for after the event which gave rise to the claims in a manner which is consistent with our property catastrophe reinsurance reserving practices as discussed above. The large catastrophes occurring during the period from 2002 to 2006, principally include hurricanes Charley,

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Frances, Ivan, Jeanne, Katrina, Rita and Wilma which occurred in 2004 and 2005. Our ultimate net claims and claim expenses from these events within our Individual Risk segment, net of reinsurance recoveries and assumed and ceded loss related premium, for the 2004 accident year totaled $158.3 million, $182.3 million and $184.6 million as of December 31, 2004, 2005 and 2006. Our ultimate net claims and claim expenses from these events within our Individual Risk segment, net of reinsurance recoveries and assumed and ceded loss related premium, for the 2005 accident year totaled $140.1 million and $135.0 million, as of December 31, 2005 and 2006.

2005 Reserve Reviews

We announced in early 2005 that during 2005 we would review the processes and assumptions for establishing and evaluating our reserves during 2005. Starting in 2002 and 2003, we significantly expanded our specialty reinsurance and Individual Risk businesses, respectively, which resulted in significant growth in our reserves for claims and claim expenses for these lines of business over the subsequent three years. When establishing our initial reserves for these lines of business, we placed significant reliance on industry data as we did not have the benefit of our own historical experience. Prior to 2005, we started experiencing favorable development on the run-off of our reserves. This favorable development was principally due to our specialty reinsurance and Individual Risk businesses performing better than historical industry averages and paid and reported claims developing better than expected in our property catastrophe reinsurance business. We elected to perform our reserve reviews in 2005 principally due to: 1) the growth in our businesses and reserves for claims and claim expenses; 2) an increase in then-recent periods in favorable development in reserves for our specialty reinsurance and Individual Risk businesses, which had performed more favorably in what was effectively their first several years of operations than historical industry data would have anticipated; 3) recent favorable development with respect to our property catastrophe reinsurance reserves; and 4) a determination to consider enhancements to our reserving processes and assumptions.

We completed reviews of our property catastrophe reinsurance reserves, specialty reinsurance reserves and Individual Risk reserves in the second, third and fourth quarters of 2005, respectively. As a result of these reviews, we reduced prior year reserves within our Reinsurance and Individual Risk segments by $248.1 million and $1.1 million, respectively. Within our Reinsurance segment, the decrease included a $118.2 million decrease in reserves for our property catastrophe reinsurance business and a $129.9 million decrease in reserves for our specialty reinsurance business. After adjusting for the impact of minority interest in DaVinci, our 2005 net loss was reduced by $226.9 million as a result of these reviews.

Within our Reinsurance segment, we experienced a decrease in our property catastrophe reinsurance reserves for claims and claim expenses principally due to re-estimating the ultimate expected cost for both small and large catastrophes. This was due to a reassessment of our reserves for claims and claim expenses in light of historical paid loss trends and reported loss activity for these catastrophes. In coming to this conclusion, we reviewed claims files, requested updated claims information from brokers, and developed some new tools to help us assess trends in paid and reported losses. As a result of this review, we determined that there were trends of paid and reported claims for these catastrophes that were coming in less than originally expected and therefore the ultimate expected losses for these catastrophes were decreased.

The reviews also included a reassessment of our actuarial techniques and assumptions for our specialty reinsurance business. We considered whether we should continue with the use of the Bornhuetter-Ferguson actuarial method in reserving for our specialty reinsurance business or whether a different actuarial method might be more appropriate. As a result of the review, we determined it was appropriate to continue with the use of the Bornhuetter-Ferguson actuarial method.

To enhance the reserving for our specialty reinsurance business, we further segmented this business during the review with the aim of grouping risks into more homogeneous categories which respond to the evolution of actual exposures. This became possible as the volume of this business increased over the three preceding years. This further segmentation required the selection of loss reporting patterns to be applied to these new groups. We also updated our assumptions for our original loss reporting

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patterns based on a combination of new industry information and actual experience accumulated over the three preceding years. The assumptions for the new loss reporting patterns were applied to all prior underwriting years. In addition, we made explicit allowances for commuted contracts whereas previously these were considered in the overall reserving assumptions. We also reviewed substantially all of our case reserves and additional case reserves. The result of the foregoing was a decrease in our specialty reinsurance reserves for claims and claim expenses.

The reserve review for our Individual Risk business followed a similar process to the specialty reinsurance review noted above. The changes within our Individual Risk segment as a result of the reserve review were insignificant.

Losses Recoverable

We enter into 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, 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 losses for the industry as a whole 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 reserves has a significant impact on losses recoverable. These factors can impact the amount and timing of the losses recoverable to be recorded.

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 $21.9 million at December 31, 2006 (2005 – $46.0 million). The reinsurers with the three largest balances accounted for 24.5%, 12.7% and 6.4%, respectively, of our losses recoverable balance at December 31, 2006 (2005 – 17.9%, 14.7% and 11.8%, respectively). The three largest company-specific components of the valuation allowance represented 14.8%, 13.2% and 8.6% of our total valuation allowance at December 31, 2006 (2005 – 39.6%, 18.1% and 10.3%).

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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 bordereaux, broker notifications and/or discussions with ceding companies or their broker. 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.

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 at December 31, 2006, 2005 and 2004 were $16.2 million, $57.9 million and $30.1 million, respectively, and total estimated premiums earned were $6.8 million, $10.9 million and $3.5 million, respectively. Total earned commissions estimated at December 31, 2006, 2005 and 2004 were $3.4 million, $4.8 million and $1.1 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 premiums written, 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.

Deferred Income Taxes

Income taxes have been provided in accordance with the provisions of FASB Statement No. 109, Accounting for Income Taxes, on those operations which are subject to income tax. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the Company’s assets and liabilities. Such

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temporary differences are primarily due to the tax basis discount on unpaid losses and loss expenses, foreign tax credits, deferred policy acquisition costs and net operating loss carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized.

At December 31, 2006, our net deferred tax asset and valuation allowance were $nil million and $28.9 million, respectively (see Note 13 of the consolidated financial statements for more information). At each balance sheet date, we assess the need to establish a valuation allowance that reduces deferred tax assets when it is more likely than not that all, or some portion, of the deferred tax assets will not be realized. The valuation allowance is based on all available information including projections of future taxable income from each tax-paying component in each tax jurisdiction. Projections of future taxable income incorporate several assumptions of future business and operations that are apt to differ from actual experience. At December 31, 2006, a full valuation allowance of $28.9 million was recorded which reflects management’s assessment that it is more likely than not that the deferred tax asset will not be realized. If we subsequently assess that the valuation allowance is no longer needed, a benefit would be recorded in our consolidated statements of operations in the period in which such determination is made.

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SUMMARY OF RESULTS OF OPERATIONS FOR 2006, 2005 AND 2004

Summary Overview

Year ended December 31, (in thousands of U.S. dollars, except per share amounts and ratios)	2006	2005	2004
Highlights			
Gross premiums written	$ 1,943,647	$ 1,809,128	$ 1,544,157
Net premiums written	1,529,620	1,543,287	1,349,287
Net premiums earned	1,529,777	1,402,709	1,338,227
Net claims and claim expenses incurred	446,230	1,635,656	1,096,299
Underwriting income (loss)	693,264	(556,379)	(59,363)
Net investment income	318,106	217,252	162,722
Net realized (losses) gains on investments	(34,464)	(6,962)	23,442
Net income (loss) available (attributable) to common shareholders	761,635	(281,413)	133,108
Total assets	$ 7,769,026	$ 6,871,261	$ 5,526,318
Total shareholders' equity	$ 3,280,497	$ 2,253,840	$ 2,644,042
Per share data			
Net income (loss) available (attributable) to common shareholders per common share – diluted (1)	$ 10.57	$ (3.99)	$ 1.85
Dividends per common share	$ 0.84	$ 0.80	$ 0.76
Book value per common share	$ 34.38	$ 24.52	$ 30.19
Accumulated dividends per common share	6.12	5.28	4.48
Book value per common share plus accumulated dividends	$ 40.50	$ 29.80	$ 34.67
Key ratios			
Net claims and claim expense ratio – current accident year	38.1%	133.8%	92.4%
Net claims and claim expense ratio – prior accident years	(8.9%)	(17.2%)	(10.5%)
Net claims and claim expense ratio – calendar year	29.2%	116.6%	81.9%
Underwriting expense ratio	25.5%	23.1%	22.5%
Combined ratio	54.7%	139.7%	104.4%
Return on average common equity	36.3%	(13.6%)	6.2%

(1) In accordance with FAS 128, earnings per share calculations use average common shares outstanding – basic, when in a net loss position.

We generated $761.6 million of net income available to common shareholders in 2006, compared to a $281.4 million net loss attributable to common shareholders and $133.1 million of net income available to common shareholders in 2005 and 2004, respectively. As a result of our net income available to common shareholders in 2006, we generated a 36.3% return on average common equity and our book value per common share plus accumulated dividends increased to $40.50 at December 31, 2006, an increase of 35.9% from the amount at December 31, 2005. In 2005 and 2004, we generated (losses)

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returns on average common equity of (13.6%) and 6.2%, respectively, and (decreased) increased our book value per common share plus accumulated dividends by (14.0%) and 4.0%, respectively.

The three most significant items impacting our 2006 financial performance compared to 2005 and 2004 include: 1) an increase in our net premiums earned, principally due to growth in our catastrophe reinsurance unit where we found pricing and terms more favorable in 2006 compared with 2005 and 2004 and we chose to write more business in that unit in 2006; 2) a significant decrease in net claims and claim expenses as a result of light insured catastrophe loss activity for 2006; our net claims and claims expenses were significantly impacted by hurricanes Katrina, Rita and Wilma in 2005 and hurricanes Charley, Frances, Ivan and Jeanne in 2004, and losses of that magnitude did not occur in 2006; and 3) a significant increase in net investment income due to higher average invested assets due to the generation of cash flow from operations during the last three years that has been invested in our investment portfolio, combined with higher average yields on our portfolio of fixed maturity investments available for sale and short term investments.

Our 2005 financial performance was negatively impacted by hurricanes Katrina, Rita and Wilma, which occurred in the third and fourth quarters of 2005 and resulted in an $891.9 million net negative impact. Our 2005 financial performance was also impacted by $53.0 million of expenses related to our internal review and ongoing investigations into the Company and certain of its present and former executive officers by governmental authorities, including severance and other costs relating to the 2005 departure of our former Chairman and Chief Executive Officer. In addition, 2005 was impacted by several other large natural catastrophes including hurricanes Dennis and Emily, European windstorm Erwin as well as flooding in several European cities. Total insured losses from the 2005 catastrophes are estimated to be the most costly on record for a single year. As one of the largest writers of property catastrophe reinsurance in the world, our financial results are negatively impacted when there are large insured catastrophe losses. Finally, our 2005 financial performance benefited by the $226.9 million net favorable impact as a result of our reserve reviews completed in 2005.

Our 2004 financial performance was impacted by a $570.2 million net negative impact from hurricanes Charley, Frances, Ivan and Jeanne.

The following table summarizes the net financial statement impact of the 2005 hurricanes, reserve reviews, internal review related costs and 2004 hurricanes described above by segment.

Net negative (positive) financial statement impact

Year ended December 31, 2005	Reinsurance	Individual Risk	Other	Total
(in thousands)				
Hurricanes Katrina, Rita and Wilma	$ 751,867	$ 140,080	$ —	$ 891,947
Reserve reviews	(225,809)	(1,136)	—	(226,945)
Internal review and related costs	—	—	53,040	53,040
Total net negative financial statement impact	$ 526,058	$ 138,944	$ 53,040	$ 718,042
Year ended December 31, 2004				
(in thousands)				
Hurricanes Charley, Frances, Ivan and Jeanne	$ 411,946	$ 158,303	—	$ 570,249
Total net negative financial statement impact	$ 411,946	$ 158,303	$ —	$ 570,249

The net negative impact from the hurricanes described above includes the sum of net claims and claim expenses incurred, assumed and ceded reinstatement premiums earned, lost profit commissions, assessment related losses and expenses, and minority interest. Net negative impact is based on

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management's estimates following a review of our potential exposures and discussions with our counterparties. Given the magnitude of these events, delays in receiving claims data, uncertainty surrounding final industry losses reported by statistical reporting agencies which impact our reinsurance recoveries, the unusual legal and claim issues related to certain of the events, particularly but not exclusively hurricane Katrina, and other uncertainties inherent in loss estimation, meaningful additional uncertainty remains regarding total covered losses for the insurance industry from these events. Accordingly, these estimates are subject to change as new or revised data is received from our counterparties, and other factors. Changes to these estimates will be recorded in the periods in which they occur.

Underwriting Results by Segment

We conduct our business through two reportable segments, Reinsurance and Individual Risk. Our Reinsurance segment provides reinsurance through our catastrophe reinsurance and specialty reinsurance business units and through Ventures. Our Individual Risk segment provides primary insurance and quota share reinsurance.

Reinsurance Segment

Our Reinsurance operations are comprised of three units: 1) property catastrophe reinsurance, primarily written through Renaissance Reinsurance and DaVinci; 2) specialty reinsurance, primarily written through Renaissance Reinsurance and DaVinci; and 3) certain activities of Ventures.

Below is a summary of the underwriting results and ratios for our Reinsurance segment followed by an analysis of our property catastrophe reinsurance unit and specialty reinsurance unit underwriting results and ratios for the years ended December 31, 2006, 2005 and 2004:

Reinsurance segment overview

Year ended December 31,	2006	2005	2004
(in thousands)			
Gross premiums written (1)	$ 1,321,163	$ 1,202,975	$ 1,084,896
Net premiums written	$ 1,039,103	$ 1,024,010	$ 930,946
Net premiums earned	972,017	947,389	944,527
Net claims and claim expenses incurred	148,052	1,252,644	746,010
Acquisition expenses	115,324	92,763	117,145
Operational expenses	72,405	63,522	34,983
Underwriting income (loss)	$ 636,236	$ (461,540)	$ 46,389
Net claims and claim expenses incurred – current accident year	$ 273,286	$ 1,483,981	$ 859,842
Net claims and claim expenses incurred – prior accident years	(125,234)	(231,337)	(113,832)
Net claims and claim expenses incurred – total	$ 148,052	$ 1,252,644	$ 746,010

Net claims and claim expense ratio – current accident year	28.1%	156.6%	91.0%
Net claims and claim expense ratio – prior accident years	(12.9%)	(24.4%)	(12.0%)
Net claims and claim expense ratio – calendar year	15.2%	132.2%	79.0%
Underwriting expense ratio	19.3%	16.5%	16.1%
Combined ratio	34.5%	148.7%	95.1%

(1) Includes gross premiums ceded from the Individual Risk segment to the Reinsurance segment of $66.9 million, $45.3 million and $18.8 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Gross premiums written in our Reinsurance segment increased by $118.2 million to $1,321.2 million for 2006, primarily due to the favorable pricing and terms experienced during our 2006 catastrophe reinsurance renewals. The improved pricing and terms for our 2006 catastrophe reinsurance renewals was principally driven by a hardening property catastrophe reinsurance market following the large catastrophes occurring during 2005. In 2006, we also wrote $114.0 million of gross premiums on behalf of two new fully-collateralized joint ventures which were established to take advantage of the favorable pricing and terms discussed above. The increase in our catastrophe gross premiums written more than offset a significant decline in our specialty reinsurance premium in 2006. For 2005, our gross premiums written increased by $118.1 million to $1,203.0 million. The 2005 increase consisted primarily of premiums written which we view as loss related and attributable to the large catastrophes occurring during 2005. This loss related premium, which includes reinstatement premiums written as a result of large catastrophes, back-up reinsurance coverage provided to companies to replace reinsurance protection lost following a large catastrophe, and reinsurance coverage provided to a company to cover named hurricanes, totaled $153.4 million in 2005 and $57.5 million in 2004. Large catastrophes include hurricanes Katrina, Rita and Wilma in 2005 and hurricanes Charley, Frances, Ivan and Jeanne in 2004.

Gross Premiums Written by Geographic Region

The following is a summary of our gross reinsurance premiums written, excluding premiums assumed from our Individual Risk segment, allocated to the territory of coverage exposure:

Reinsurance segment gross premiums written

Year ended December 31,	2006		2005		2004	
(in thousands)						
	Gross Premiums Written	Percentage of Gross Premiums Written	Gross Premiums Written	Percentage of Gross Premiums Written	Gross Premiums Written	Percentage of Gross Premiums Written
Property catastrophe reinsurance						
United States and Caribbean	$ 792,311	63.1%	$ 458,193	39.6%	$ 338,315	31.7%
Europe	73,500	5.9	105,796	9.1	141,385	13.3
Worldwide (excluding U.S) (1)	71,116	5.7	59,076	5.1	63,529	6.0
Worldwide	68,575	5.5	54,493	4.7	90,607	8.5

Australia and New Zealand	2,732	0.2	33,266	2.9	28,614	2.7
Other	23,972	1.9	19,472	1.7	20,729	1.9
Specialty reinsurance (2)	222,049	17.7	427,402	36.9	382,886	35.9
Total Reinsurance gross premiums written (3)	$ 1,254,255	100.0%	$ 1,157,698	100.0%	$ 1,066,065	100.0%

(1)The category ‘‘Worldwide (excluding U.S.)’’ consists of contracts that cover more than one geographic region (other than the U.S.). The exposure in this category for gross written premiums written to date is predominantly from Europe and Japan.

(2)The category Specialty reinsurance consists of contracts that are predominantly exposed to U.S. and worldwide risks.

(3)Reinsurance segment gross premiums written excludes $66.9 million, $45.3 million and $18.8 million of premiums assumed from the Individual Risk segment in 2006, 2005 and 2004, respectively.

Our property catastrophe reinsurance gross premiums written continue to be characterized by an increasing percentage of U.S. and Caribbean premium as we have not found similarly attractive

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business in Europe or the rest of the world. A significant amount of this U.S. and Caribbean premium provides coverage against windstorms, mainly U.S. Atlantic hurricanes, as well as earthquakes and other natural and man-made catastrophes.

Ceded Premiums Written

Year ended December 31,	2006	2005	2004
(in thousands)			
Ceded premiums written – Reinsurance segment	$ 282,060	$ 178,965	$ 153,950

Due to the potential volatility of the property catastrophe reinsurance contracts which we sell, we purchase reinsurance to reduce our exposure to large losses and to help manage our risk portfolio. We use our REMS© modeling system to evaluate how each purchase interacts with our portfolio of reinsurance contracts we write, and with the other ceded reinsurance contracts we purchase, to determine the appropriateness of the pricing of each contract and whether or not it helps us to balance our portfolio of risks.

Ceded premiums written increased by $103.1 million in 2006 primarily as a result of the utilization in the 2006 U.S. hurricane season of two new fully-collateralized joint ventures, Starbound Re and Tim Re, pursuant to which $114.0 million of assumed catastrophe reinsurance premium was fully ceded to those entities.

In 2005, ceded premiums written included $49.9 million of premiums written which we view as loss related and attributable to the 2005 large hurricanes. This includes additional premium ceded on certain multi-year retrospectively rated reinsurance contracts which was triggered as a result of hurricanes Katrina and Wilma. Excluding this loss related premium, ceded premiums written decreased by $24.9 million in 2005, compared to 2004.

To the extent that appropriately priced coverage is available, we anticipate continued use of reinsurance to reduce the impact of large losses on our financial results and to manage our portfolio of risk; however, the buying of ceded reinsurance in our Reinsurance segment is opportunistic and is not based on a placing a specific reinsurance program each year.

Reinsurance Segment Underwriting Results – In 2006, we generated underwriting income of $636.2 million and recorded a net claims and claim expense ratio of 15.2%, an expense ratio of 19.3%, and a combined ratio of 34.5%, compared to an underwriting loss of $461.5 million, a net claims and claim expense ratio of 132.2%, expense ratio of 16.5% and combined ratio of 148.7%, in 2005. The significant improvement in our underwriting performance is directly attributable to the light insured catastrophe loss activity experienced during 2006, compared to 2005. As noted above, hurricanes Katrina, Rita and Wilma resulted in $1,076.1 million of net claims and claim expenses in 2005 and added 113.6 percentage points to our net claims and claim expense ratio in 2005. In 2004, hurricanes Charley, Frances, Ivan and Jeanne resulted in net claims and claim expenses of $581.8 million and increased our net claims and claim expense ratio by 61.6 percentage points in that year. There was an absence of large, land falling hurricanes and other catastrophes impacting the insurance industry in 2006, which substantially contributed to the significant improvement in our underwriting profit.

Our underwriting results over the last three years have been, and may well continue to be, impacted by prior year reserve development. Our prior year reserves experienced $125.2 million, $231.3 million and $113.8 million of net favorable development in 2006, 2005 and 2004, respectively. The favorable prior year reserve development in 2006 was principally driven by our specialty reinsurance unit. The reductions in reserves within our specialty reinsurance unit were principally driven by the application of our formulaic reserving methodology for this book of business with the reductions being due to actual paid and reported loss activity being better than what we anticipated when setting the initial IBNR reserves. In addition, within our specialty reinsurance unit $46.0 million of the favorable development was driven by a reduction in carried reserves due to commutations. The favorable prior year reserve development in 2005 was principally the result of our 2005 reserve reviews. With the

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growth in our reserves for claims and claim expenses, we announced in early 2005 that we would review the processes and assumptions for establishing and evaluating our reserves during 2005. We completed reviews of our property catastrophe reinsurance and specialty reinsurance reserves in the second and third quarters of 2005, respectively. As a result of these reviews, we reduced prior year reserves within our Reinsurance segment by $248.1 million, which reduced our 2005 net claims and claim expense ratio by 26.2 percentage points. After adjusting for the impact of minority interest, our 2005 net loss was reduced by $225.8 million as a result of the Reinsurance segment reserve reviews. The reserve changes for our property catastrophe portfolio reflects a reassessment of our reserves for claims and claim expenses in light of historical paid loss trends and reported loss activity for the 1994 to 2004 accident years. For our specialty reinsurance business, the changes were principally due to a reassessment of our estimated loss reporting patterns. Since establishing the specialty reinsurance business unit in 2002, reported claim activity has been less than expected and therefore we have adjusted our estimated loss reporting patterns to reflect this experience. The 2004 reduction in prior years' estimated ultimate net claims reserves of $113.8 million was primarily due to a re-estimation of our ultimate losses associated with six large catastrophe events, a reduction in reserves from numerous smaller catastrophe events, and reductions from our specialty book of business.

The following financial data shows the net financial statement impact on our Reinsurance segment as a result of the 2005 large hurricanes and reserve reviews and the 2004 large hurricanes:

Reinsurance segment net negative (positive) financial statement impact

Year ended December 31, 2005 (in thousands)	Net claims and claim expenses Ratio	Incurred	Other (1)	Minority interest	Total
2005 hurricanes					
Hurricane Katrina	53.2%	$ 504,278	$ (20,405)	$ (99,791)	$ 384,082
Hurricane Wilma	44.0%	416,862	(37,503)	(120,721)	258,638
Hurricane Rita	16.4%	154,945	(21,336)	(24,462)	109,147
Subtotal – 2005 hurricanes	113.6%	1,076,085	(79,244)	(244,974)	751,867
2005 reserve reviews					
Catastrophe reserve review	(12.5%)	(118,202)	—	9,970	(108,232)
Specialty reserve review	(13.7%)	(129,925)	—	12,348	(117,577)
Subtotal – 2005 reserve reviews	(26.2%)	(248,127)	—	22,318	(225,809)
Net negative (positive) financial statement impact	87.4%	$ 827,958	$ (79,244)	$ (222,656)	$ 526,058
Year ended December 31, 2004 (in thousands)					
2004 hurricanes Charley, Frances, Ivan and Jeanne net negative (positive) financial statement impact	61.6%	$ 581,795	$ (32,093)	$ (137,756)	$ 411,946

(1) Other primarily consists of assumed and ceded earned reinstatement premiums and lost profit commissions.

Losses from our property catastrophe reinsurance and specialty reinsurance policies can be infrequent, but severe, as demonstrated by our 2005 and 2004 results compared to 2006. During periods with low levels of property catastrophe loss activity, such as 2006, we have the potential to produce a low level of losses and a related increase in underwriting income. As described above, we believe there has been an increase in the frequency and severity of hurricanes that have the potential to make landfall in the U.S., potentially as a result of decadal ocean water temperature cyclical trends, a longer-term trend towards global warming, or both or other factors.

Given the magnitude of the hurricane losses from 2005 and 2004 and due to delays in receiving claims data and the likelihood of receiving new or revised data from our counterparties, the estimates of hurricane losses and related recoveries are likely to change, perhaps materially. Changes in these estimates will be recorded in the periods in which they occur.

Our underwriting expenses consist of acquisition expenses and operational expenses. Acquisition expenses consist of the costs to acquire premiums and are principally comprised of broker commissions and excise taxes. Acquisition expenses are driven by contract terms and are normally a set percentage of premiums and, accordingly, these costs will normally move in line with the fluctuation in gross premiums earned. In 2006, the acquisition expense ratio of 11.9% was higher than the 9.8% recorded in 2005, driven mainly by the significant amount of loss related premium generated in 2005 which typically has lower brokerage expenses associated with it. In 2004, the acquisition expense ratio was 12.4%. Operating expenses consist of salaries and other general and administrative expenses. Operating expenses increased by $8.8 million to $72.4 million in 2006 when compared to 2005, principally due to expenses related to the growth in our business which has resulted in an increase in the number of employees and associated compensation, general and administrative expenses. Our consolidated operating expense ratio may increase over time, as a result of factors including the absolute and comparative growth of our Individual Risk business, which generally produces higher operating expenses than reinsurance, and market trends and dynamics.

We have entered into joint ventures and specialized quota share cessions of our book of business. In accordance with the joint venture and quota share agreements, we are entitled to certain fee income and profit commissions. We record these fees and profit commissions as a reduction in acquisition and operating expenses and, accordingly, these fees have reduced our underwriting expense ratios. These fees totaled $10.5 million, $21.1 million and $12.6 million in 2006, 2005 and 2004, respectively and resulted in a corresponding decrease to the underwriting expense ratio of 1.1%, 2.2% and 1.3% for the years ended December 31, 2006, 2005 and 2004, respectively. In addition, we are entitled to certain fee income and profit commissions from DaVinci. Because the results of DaVinci, and its parent DaVinciRe, are consolidated in our results of operations, these fees and profit commissions are eliminated in our consolidated financial statements and are principally reflected in minority interest. The net impact of all fees and profit commissions related to these joint ventures and specialized quota share cessions within our Reinsurance segment were $55.4 million, $35.8 million and $38.4 million for the years ending December 31, 2006, 2005 and 2004, respectively.

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Catastrophe

Catastrophe overview

Year ended December 31,	2006	2005	2004
(in thousands)			
Property catastrophe gross premiums written			
Renaissance	$ 773,638	$ 573,393	$527,418
DaVinci	325,476	202,180	174,592
Total property catastrophe gross premiums written (1)	$1,099,114	$ 775,573	$702,010
Net premiums written	$ 817,054	$ 596,608	$548,060
Net premiums earned	733,777	545,321	576,049
Net claims and claim expenses incurred	131,475	1,025,389	545,359
Acquisition expenses	82,936	47,620	72,195
Operational expenses	47,364	35,746	18,788
Underwriting income (loss)	$ 472,002	$ (563,434)	$ (60,293)
Net claims and claim expenses incurred – current accident year	$ 117,528	$1,087,141	$612,616
Net claims and claim expenses incurred – prior accident years	13,947	(61,752)	(67,257)
Net claims and claim expenses incurred – total	$ 131,475	$1,025,389	$545,359
Net claims and claim expense ratio – current accident year	16.0%	199.3%	106.3%
Net claims and claim expense ratio – prior accident years	1.9%	(11.3%)	(11.6%)
Net claims and claim expense ratio – calendar year	17.9%	188.0%	94.7%

Underwriting expense ratio	17.8%	15.3%	15.8%
Combined ratio	35.7%	203.3%	110.5%

(1)Includes gross premiums written ceded from the Individual Risk segment to the Catastrophe unit of $64.6 million, $43.6 million and $18.8 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Catastrophe Reinsurance Gross Premiums Written – Our catastrophe reinsurance gross premiums written increased by $323.5 million in 2006 to $1,099.1 million, primarily due to the favorable pricing and terms experienced on renewal business as a result of the large catastrophes occurring in 2005. Also in 2006, we wrote $114.0 million of gross premiums on behalf of two new fully-collateralized joint ventures which were established to provide capacity to our clients and take advantage of the favorable pricing and terms discussed above. This premium was fully ceded to these fully-collateralized joint ventures in return for a profit commission and expense override. The $73.6 million increase in catastrophe reinsurance gross premiums written for 2005 when compared to 2004, consisted primarily of premiums written which we view as loss related and attributable to the large catastrophes occurring during 2005. This loss related premium, which includes reinstatement premiums written as a result of large catastrophes, back-up reinsurance coverage provided to companies to replace reinsurance protection lost following a large catastrophe, and reinsurance coverage provided to a company to cover named hurricanes, totaled $115.0 million in 2005 and $57.5 million in 2004. Large catastrophes include hurricanes Katrina, Rita and Wilma in 2005 and hurricanes Charley, Frances, Ivan and Jeanne, in 2004. Excluding this premium, which in the absence of similar large catastrophes we would not expect to recur; our property catastrophe gross premiums written were relatively flat in 2005 compared to 2004.

Our property catastrophe gross premiums written continue to be characterized by an increasing percentage of U.S. and Caribbean premium as we have not found similarly attractive business in Europe or the rest of the world. A significant amount of this U.S. and Caribbean premium provides coverage against windstorms, principally U.S. Atlantic hurricanes, as well as earthquakes and other natural and man-made catastrophes.

Catastrophe Reinsurance Underwriting Results – In 2006, our underwriting results were significantly impacted by the low level of insured catastrophe losses experienced and we generated $472.0 million of underwriting income and recorded a net claims and claims expense ratio of 17.9%, underwriting expense ratio of 17.8% and combined ratio of 35.7%, compared to an underwriting loss of $563.4 million, net claims and claims expense ratio of 188.0%, underwriting expense ratio of 15.3% and combined ratio of 203.3%, in 2005. Our 2006 accident year net claims and claim expenses of $117.5 million were $969.6 million lower than 2005, primarily as a result of $938.9 million in net claims and claim expenses in 2005 related hurricanes Katrina, Rita and Wilma, that did not recur. In addition, 2005 was also impacted by several other large natural catastrophes including hurricanes Dennis and Emily, European windstorm Erwin, as well as flooding in several European cities. In 2004, we incurred a $60.3 million underwriting loss and recorded a net claims and claims expense ratio of 94.7%, underwriting expense ratio of 15.8% and combined ratio of 110.5%. In 2004, hurricanes Charley, Frances, Ivan and Jeanne resulted in $581.8 million of net claims and claim expenses.

In 2006, we experienced $13.9 million of adverse development on prior year reserves, which increased our calendar year net claims and claims expenses ratio by 1.9 percentage points. The adverse development in our catastrophe reinsurance unit was principally driven by an increase in our estimate of ultimate losses for a U.K. industrial property loss. This loss occurred at the end of 2005 and both the estimate of insured industry losses for the event and our estimate of our client's losses from this event increased in 2006. In 2005, we experienced $61.8 million of favorable development which improved our calendar year net claims and claims expenses ratio by 11.3 percentage points, principally as a result of our 2005 reserve review discussed above. In 2004, we experienced $67.3 million of favorable development which improved our calendar year loss ratio by 11.6 percentage points, principally as a result of re-estimation of our ultimate losses associated with six large catastrophe events and reduction in reserves from numerous smaller prior year catastrophe events.

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Specialty

Specialty overview

Year ended December 31,	2006	2005	2004
(in thousands)			
Specialty gross premiums written			
Renaissance	$ 198,111	$ 402,207	$351,261
DaVinci	23,938	25,195	31,625
Total specialty gross premiums written (1)	$ 222,049	$ 427,402	$382,886
Net premiums written	$ 222,049	$ 427,402	$382,886
Net premiums earned	238,240	402,068	368,478
Net claims and claim expenses incurred	16,577	227,255	200,651
Acquisition expenses	32,388	45,143	44,950
Operational expenses	25,041	27,776	16,195
Underwriting income	$ 164,234	$ 101,894	$106,682
Net claims and claim expenses incurred – current accident year	$ 155,758	$ 396,840	$247,226
Net claims and claim expenses incurred – prior accident years	(139,181)	(169,585)	(46,575)
Net claims and claim expenses incurred – total	$ 16,577	$ 227,255	$200,651
Net claims and claim expense ratio – current accident year	65.4%	98.7%	67.1%
Net claims and claim expense ratio – prior accident years	(58.4%)	(42.2%)	(12.7%)
Net claims and claim expense ratio – calendar year	7.0%	56.5%	54.4%
Underwriting expense ratio	24.1%	18.1%	16.6%
Combined ratio	31.1%	74.6%	71.0%

(1) Includes gross premiums written ceded from the Individual Risk segment to the Specialty unit of $2.3 million, $1.7 million and $nil for the years ended December 31, 2006, 2005 and 2004, respectively.

Specialty Reinsurance Gross Premiums Written – Our specialty reinsurance gross premiums written decreased by $205.4 million to $222.0 million in 2006, due to several factors including the non-renewal of contracts due to clients in general retaining more risk, and our underwriters non-renewing certain programs where the pricing and terms deteriorated to a point where we no longer found the programs attractive enough for us to write. In addition, our 2006 specialty reinsurance gross premiums written were negatively impacted by $28.3 million of return premium on contracts that were commuted in 2006 which resulted in a corresponding decrease in gross premiums written. The increase in our specialty reinsurance gross premiums written for 2005 was primarily attributable to premiums written due to the large catastrophes occurring during that year. This loss related premium, which primarily includes reinstatement premiums written as a result of large catastrophes, totaled $38.4 million in 2005. Excluding this premium, which in the absence of similar large catastrophes we would not expect to recur, our specialty reinsurance gross premiums written were relatively flat in 2005 when compared to 2004.

Specialty Reinsurance Underwriting Results – Our specialty reinsurance unit experienced improved underwriting performance in 2006 with underwriting income of $164.2 million, a net claims and claim expense ratio of 7.0%, underwriting expense ratio of 24.1% and combined ratio of 31.1%, compared to $101.9 million of underwriting income, a net claims and claim expense ratio of 56.5%, underwriting expense ratio of 18.1% and combined ratio of 74.6%, in 2005. The improvement was due to a lower level of loss activity in the 2006 accident year compared with 2005. Our accident year specialty net

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claims and claims expense ratio was 65.4%, 98.7% and 67.1% in 2006, 2005 and 2004, respectively. The increase in 2005 was driven by losses associated with the 2005 large hurricanes.

Our specialty reinsurance unit has experienced favorable development on prior year reserves of $139.2 million, $169.6 million and $46.6 million, in 2006, 2005 and 2004, respectively. The reductions in our prior year reserves in 2006 was principally driven by the application of our formulaic reserving methodology used for this book of business with the decrease being due to actual paid and reported loss activity coming in better than what we anticipated when setting the initial reserve estimates. In addition, within our specialty reinsurance unit $46.0 million of the favorable development was driven by a reduction in carried reserves due to commutations. In 2005, we completed a review of our specialty reinsurance reserves. As a result of this review, we reduced prior year reserves for our specialty reinsurance unit by $129.9 million, which reduced our 2005 net claims and claim expense ratio by 32.3 percentage points. After adjusting for the impact of minority interest, our 2005 net loss was reduced by $117.6 million as a result of the specialty reinsurance reserve review. The 2005 reserve review changes for our specialty reinsurance business were principally due to a reassessment of our estimated loss reporting patterns. Since establishing the specialty reinsurance business unit in 2002, reported claim activity has been less than expected and therefore we have adjusted our estimated loss reporting patterns to reflect this experience. We cannot provide assurance that favorable reserve releases will continue, or that we will not experience unfavorable reserve development in the future.

Individual Risk Segment

We define our Individual Risk segment to include underwriting that involves understanding the characteristics of the original underlying insurance policy. Our principal contracts include insurance contracts and quota share reinsurance with respect to risks including: 1) commercial multi-line, which includes commercial property and liability coverage, such as general liability, automobile liability and physical damage, building and contents, professional liability and various specialty products, and multi-peril crop insurance; 2) commercial property, which principally includes catastrophe-exposed commercial property products; and 3) personal lines property, which principally includes homeowners personal lines property coverage and catastrophe exposed personal lines property coverage. We operate through the Glencoe Group of companies, whose principal operating subsidiaries are Glencoe, Stonington, Stonington Lloyds and Lantana.

Below is a summary of the underwriting results and ratios for the years ended December 31, 2006, 2005 and 2004 for our Individual Risk segment:

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Individual Risk segment overview

Year ended December 31,	2006	2005	2004
(in thousands)			
Gross premiums written	$689,392	$651,430	$ 478,092
Net premiums written	$490,517	$519,277	$ 418,341
Net premiums earned	$557,760	$455,320	$ 393,700
Net claims and claim expenses incurred	298,178	383,012	350,289
Acquisition expenses	165,373	144,831	127,785
Operational expenses	37,181	22,316	21,378
Underwriting income (loss)	$ 57,028	$ (94,839)	$(105,752)
Net claims and claim expenses incurred – current accident year	$309,502	$393,137	$ 376,723
Net claims and claim expenses incurred – prior accident years	(11,324)	(10,125)	(26,434)
Net claims and claim expenses incurred – total	$298,178	$383,012	$ 350,289
Net claims and claim expense ratio – current accident year	55.5%	86.3%	95.7%
Net claims and claim expense ratio – prior accident years	(2.0%)	(2.2%)	(6.7%)
Net claims and claim expense ratio – calendar year	53.5%	84.1%	89.0%
Underwriting expense ratio	36.3%	36.7%	37.9%
Combined ratio	89.8%	120.8%	126.9%

Individual Risk Gross Premiums Written – The following table shows our Individual Risk gross premiums written by major type of business for the years ended December 31, 2006, 2005 and 2004:

Individual Risk segment gross premiums written

Year ended December 31,	2006		2005		2004	
(in thousands)	Gross Premiums Written	Percentage of Gross Premiums Written	Gross Premiums Written	Percentage of Gross Premiums Written	Gross Premiums Written	Percentage of Gross Premiums Written
Individual Risk gross premiums written						
Commercial multi-line	$ 358,987	52.1%	$ 316,553			