

RENAISSANCERE HOLDINGS LTD

Form 10-Q

July 30, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended June 30, 2008

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. 001-14428

RENAISSANCERE HOLDINGS LTD.

(Exact name of registrant as specified in its charter)

Bermuda
(State or Other Jurisdiction of
Incorporation or Organization)
Renaissance House, 8-20 East Broadway, Pembroke HM 19 Bermuda
(Address of principal executive offices)
(441) 295-4513
(Registrant's telephone number, including area code)

98-014-1974
(I.R.S. Employer
Identification Number)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer , Accelerated filer , Non-accelerated filer , Smaller reporting company .

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

The number of outstanding shares of RenaissanceRe Holdings Ltd.'s common shares, par value US \$1.00 per share, as of July 24, 2008 was 61,237,784.

Total number of pages in this report: 59

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RenaissanceRe Holdings Ltd.

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(in thousands of United States Dollars)

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Assets		
Fixed maturity investments available for sale, at fair value (Amortized cost \$3,736,403 and \$3,863,902 at June 30, 2008 and December 31, 2007, respectively)	\$ 3,775,345	\$ 3,914,363
Short term investments, at fair value	1,400,884	1,821,549
Other investments, at fair value	927,247	807,864
Investments in other ventures, under equity method	104,438	90,572
Total investments	6,207,914	6,634,348
Cash and cash equivalents	262,951	330,226
Premiums receivable	965,955	475,075
Ceded reinsurance balances	206,888	107,916
Losses recoverable	191,789	183,275
Accrued investment income	32,976	39,084
Deferred acquisition costs	134,319	104,212
Receivable for investments sold	209,320	144,037
Other secured assets	107,025	90,488
Other assets	156,970	171,457
Goodwill and other intangibles	74,169	6,237
Total assets	\$ 8,550,276	\$ 8,286,355
Liabilities, Minority Interest and Shareholders Equity		
Liabilities		
Reserve for claims and claim expenses	\$ 2,009,803	\$ 2,028,496
Reserve for unearned premiums	993,959	563,336
Debt	450,000	451,951
Reinsurance balances payable	408,775	275,430
Payable for investments purchased	247,482	422,974
Other secured liabilities	106,420	88,920
Other liabilities	165,905	162,294
Total liabilities	4,382,344	3,993,401
Commitments and Contingencies		
Minority Interest - DaVinciRe	794,499	815,451
Shareholders Equity		
Preference shares	650,000	650,000
Common shares	62,862	68,920
Additional paid-in capital		107,867

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Accumulated other comprehensive income	35,562	44,719
Retained earnings	2,625,009	2,605,997
Total shareholders equity	3,373,433	3,477,503
Total liabilities, minority interest and shareholders equity	\$ 8,550,276	\$ 8,286,355

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

Table of Contents**RenaissanceRe Holdings Ltd. and Subsidiaries****Consolidated Statements of Operations****For the three and six months ended June 30, 2008 and 2007**

(in thousands of United States Dollars, except per share amounts)

(Unaudited)

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenues				
Gross premiums written	\$ 807,575	\$ 845,860	\$ 1,334,613	\$ 1,478,589
Net premiums written	\$ 614,022	\$ 609,842	\$ 1,017,138	\$ 1,180,869
Increase in unearned premiums	(237,449)	(251,388)	(331,651)	(459,797)
Net premiums earned	376,573	358,454	685,487	721,072
Net investment income	38,685	118,140	91,188	226,155
Net foreign exchange (losses) gains	(231)	(373)	4,705	4,794
Equity in earnings of other ventures	4,872	9,675	11,122	20,376
Other (loss) income	(24)	(5,498)	7,988	(7,701)
Net realized losses on investments	(24,161)	(11,566)	(34,831)	(7,481)
Total revenues	395,714	468,832	765,659	957,215
Expenses				
Net claims and claim expenses incurred	114,217	138,854	196,373	284,846
Acquisition expenses	53,613	59,509	100,041	123,238
Operational expenses	33,494	26,527	63,607	55,051
Corporate expenses	7,111	4,927	15,814	11,931
Interest expense	5,937	7,195	12,741	19,174
Total expenses	214,372	237,012	388,576	494,240
Income before minority interests and taxes	181,342	231,820	377,083	462,975
Minority interest - DaVinciRe	(41,341)	(37,399)	(81,656)	(66,506)
Income before taxes	140,001	194,421	295,427	396,469
Income tax benefit (expense)	6,295	(680)	(1,391)	(787)
Net income	146,296	193,741	294,036	395,682
Dividends on preference shares	(10,575)	(10,575)	(21,150)	(21,711)
Net income available to common shareholders	\$ 135,721	\$ 183,166	\$272,886	\$ 373,971
Net income available to common shareholders per common share - basic	\$ 2.16	\$ 2.57	\$ 4.25	\$ 5.25
Net income available to common shareholders per common share - diluted	\$ 2.13	\$ 2.53	\$ 4.18	\$ 5.16
Dividends per common share	\$ 0.23	\$ 0.22	\$ 0.46	\$ 0.44

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

Table of Contents**RenaissanceRe Holdings Ltd. and Subsidiaries****Consolidated Statements of Changes in Shareholders' Equity****For the six months ended June 30, 2008 and 2007**

(in thousands of United States Dollars)

(Unaudited)

	Six months ended	
	June 30, 2008	June 30, 2007
Preference shares		
Balance - January 1	\$ 650,000	\$ 800,000
Repurchase of shares		(150,000)
Balance - June 30	650,000	650,000
Common shares		
Balance - January 1	68,920	72,140
Repurchase of shares	(6,435)	(223)
Exercise of options and issuance of restricted stock and awards	377	349
Balance - June 30	62,862	72,266
Additional paid-in capital		
Balance - January 1	107,867	284,123
Repurchase of shares	(121,841)	(10,896)
Exercise of options and issuance of restricted stock and awards	13,974	10,466
Balance - June 30		283,693
Accumulated other comprehensive income		
Balance - January 1	44,719	25,217
Net unrealized losses on securities, net of adjustment (see disclosure below)	(9,157)	(12,278)
Balance - June 30	35,562	12,939
Retained earnings		
Balance - January 1	2,605,997	2,099,017
Net income	294,036	395,682
Repurchase of shares	(224,300)	
Dividends on common shares	(29,574)	(31,848)
Dividends on preference shares	(21,150)	(21,711)
Balance - June 30	2,625,009	2,441,140
Total Shareholders' Equity	\$ 3,373,433	\$ 3,460,038
Comprehensive income (1)		

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Net income	\$ 294,036	\$ 395,682
Other comprehensive loss	(9,157)	(12,278)
Comprehensive income	\$ 284,879	\$ 383,404
Disclosure regarding net unrealized losses		
Net unrealized holding losses arising during the year	\$ (43,988)	\$ (19,759)
Net realized losses included in net income	34,831	7,481
Net unrealized losses on securities	\$ (9,157)	\$ (12,278)

- (1) Comprehensive income was \$116.5 million and \$179.3 million for the three months ended June 30, 2008 and 2007, respectively.
The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**RenaissanceRe Holdings Ltd. and Subsidiaries****Consolidated Statements of Cash Flows****For the six months ended June 30, 2008 and 2007**

(in thousands of United States dollars)

(Unaudited)

	Six months ended	
	June 30, 2008	June 30, 2007
<i>Cash flows provided by operating activities</i>		
Net income	\$ 294,036	\$ 395,682
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Amortization and depreciation	(535)	(6,984)
Net realized losses on investments	34,831	7,481
Equity in undistributed earnings of other ventures	6,030	(7,615)
Net unrealized losses (gains) included in investment income	49,756	(48,231)
Net unrealized losses (gains) included in other (loss) income	7,227	(8,478)
Minority interest in undistributed net income of DaVinciRe	81,656	66,506
Change in:		
Premiums receivable	(490,880)	(508,507)
Ceded reinsurance balances	(98,972)	(107,517)
Deferred acquisition costs	(30,107)	(65,013)
Reserve for claims and claim expenses, net	(27,207)	94,925
Reserve for unearned premiums	430,623	567,315
Reinsurance balances payable	133,345	(50,138)
Other	(12,867)	11,946
<i>Net cash provided by operating activities</i>	376,936	341,372
<i>Cash flows provided by investing activities</i>		
Proceeds from sales and maturities of investments available for sale	5,971,872	1,322,606
Purchases of investments available for sale	(6,115,709)	(1,422,001)
Net sales of short term investments	420,665	142,799
Net purchases of other investments	(163,356)	(17,211)
Net (purchases) sales of investments in other ventures	(19,350)	2,262
Net purchase of subsidiaries	(76,631)	
<i>Net cash provided by investing activities</i>	17,491	28,455
<i>Cash flows used in financing activities</i>		
Dividends paid - common shares	(29,574)	(31,848)
Dividends paid - preference shares	(21,150)	(21,711)
RenaissanceRe common share repurchase	(352,576)	(11,119)
DaVinciRe share repurchase	(100,000)	
Third party DaVinciRe share repurchase	43,549	
Net repayment of debt	(1,951)	

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Redemption of Series A preference shares		(150,000)
Redemption of capital securities		(103,093)
<i>Net cash used in financing activities</i>	(461,702)	(317,771)
<i>Net (decrease) increase in cash and cash equivalents</i>	(67,275)	52,056
<i>Cash and cash equivalents, beginning of period</i>	330,226	214,399
<i>Cash and cash equivalents, end of period</i>	\$ 262,951	\$ 266,455

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

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RenaissanceRe Holdings Ltd. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(Expressed in U.S. Dollars) (Unaudited)

1. The consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States (GAAP) for interim financial information and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these unaudited consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company s financial position and results of operations as at the end of and for the periods presented. All significant intercompany accounts and transactions have been eliminated from these statements. The preparation of unaudited consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The major estimates reflected in the Company s consolidated financial statements include, but are not limited to, the reserve for claims and claim expenses, losses recoverable, including allowances for losses recoverable deemed uncollectible, estimates of written and earned premiums, the fair value of other investments and financial instruments and the Company s deferred tax asset valuation allowance. This report on Form 10-Q should be read in conjunction with the Company s Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2007. RenaissanceRe Holdings Ltd. and Subsidiaries include the following principal entities:

RenaissanceRe Holdings Ltd. (RenaissanceRe or the Company), was formed under the laws of Bermuda on June 7, 1993. Through its subsidiaries, the Company provides reinsurance and insurance to a broad range of customers.

Renaissance Reinsurance Ltd. (Renaissance Reinsurance) is the Company s principal subsidiary and provides property catastrophe and specialty reinsurance coverages to insurers and reinsurers on a worldwide basis.

The Company also manages property catastrophe and specialty reinsurance business written on behalf of joint ventures, principally including Top Layer Reinsurance Ltd. (Top Layer Re) and Starbound Reinsurance II Ltd. (Starbound II), both recorded under the equity method of accounting, and DaVinci Reinsurance Ltd. (DaVinci). Because the Company owns a minority equity interest in, but controls a majority of the outstanding voting power of, DaVinci s parent, DaVinciRe Holdings Ltd. (DaVinciRe), the results of DaVinci and DaVinciRe are consolidated in the Company s financial statements. Minority interest represents the interests of external parties with respect to the net income and shareholders equity of DaVinciRe. Renaissance Underwriting Managers Ltd. (RUM), a wholly owned subsidiary, acts as exclusive underwriting manager for these joint ventures in return for fee-based income and profit participation.

The Company s Individual Risk operations include direct insurance and quota share reinsurance written through the operating subsidiaries of Glencoe Group Holdings Ltd. (Glencoe Group). These operating subsidiaries principally include Stonington Insurance Company (Stonington), which writes business on an admitted basis, and Glencoe Insurance Ltd. (Glencoe) and Lantana Insurance Ltd. (Lantana), which write business on an excess and surplus lines basis, and also provide reinsurance coverage, principally through quota share contracts, which are analyzed on an individual risk basis.

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

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2. The Company purchases reinsurance and other protection to manage its risk portfolio and to reduce its exposure to large losses. The Company currently has in place contracts that provide for recovery of a portion of certain claims and claim expenses from reinsurers generally in excess of various retentions or on a proportional basis. The Company remains liable to the extent that any third-party reinsurer or other obligor fails to meet its obligations. The earned reinsurance premiums ceded were \$218.5 million and \$190.2 million for the six months ended June 30, 2008 and 2007, respectively. In addition to loss recoveries, certain of the Company's ceded reinsurance contracts provide for recoveries of additional premiums, reinstatement premiums and for lost no-claims bonuses, which are incurred when losses are ceded to other reinsurance contracts. Total reinsurance recoveries netted against claims and claim expenses incurred for the six months ended June 30, 2008 were \$38.1 million compared to \$62.4 million for the six months ended June 30, 2007.
3. Basic earnings per common share is based on weighted average common shares and excludes any dilutive effects of stock options and restricted stock. Diluted income per common share assumes the exercise of all dilutive stock options and restricted stock grants. The following tables set forth the computation of basic and diluted income per common share for the three and six months ended June 30, 2008 and 2007:

Three months ended June 30, (in thousands of U.S. dollars, except share and per share data)	2008	2007
Numerator:		
Net income available to common shareholders	\$ 135,721	\$ 183,166
Denominator:		
Denominator for basic income per common share -		
Weighted average common shares	62,921,007	71,258,606
Per common share equivalents of employee stock options and restricted shares	956,561	1,171,024
Denominator for diluted income per common share -		
Adjusted weighted average common shares and assumed conversions	63,877,568	72,429,630
Basic income per common share	\$ 2.16	\$ 2.57
Diluted income per common share	\$ 2.13	\$ 2.53

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Six months ended June 30, (in thousands of U.S. dollars, except share and per share data)	2008	2007
Numerator:		
Net income attributable to common shareholders	\$ 272,886	\$ 373,971
Denominator:		
Denominator for basic income per common share -		
Weighted average common shares	64,224,453	71,269,626
Per common share equivalents of employee stock options and restricted shares	1,115,850	1,201,970
Denominator for diluted income per common share -		
Adjusted weighted average common shares and assumed conversions	65,340,303	72,471,596
Basic income per common share	\$ 4.25	\$ 5.25
Diluted income per common share	\$ 4.18	\$ 5.16

4. The Board of Directors of RenaissanceRe declared, and RenaissanceRe paid, a dividend of \$0.23 per share to shareholders of record on each of March 14 and June 13, 2008.

The Board of Directors increased its authorized share repurchase program to \$500.0 million on May 20, 2008, of which \$383.4 million remained available at July 24, 2008. The Company repurchased \$352.6 million of shares during the six months ended June 30, 2008. Future repurchases of common shares will depend on, among other matters, the market price of the common shares and the capital requirements of RenaissanceRe. See Part II, Item 2 Unregistered Sales of Equity Securities and Use of Proceeds for additional information.

5. The Company conducts its business through two reportable segments, Reinsurance and Individual Risk. The Company's Reinsurance segment provides reinsurance through its property catastrophe reinsurance and specialty reinsurance business units and through joint ventures and other activities managed by its ventures unit. Only ventures' business activities that appear in the Company's consolidated underwriting results, such as DaVinci and certain reinsurance transactions, are included in the Company's Reinsurance segment results. The Company's financial results relating to the operating subsidiaries managed by the ventures unit include the financial results of Weather Predict Inc., Weather Predict Consulting Inc., RenRe Investment Managers Ltd. (RIM) and Renaissance Trading Ltd. (Renaissance Trading) and are included in the Other category of the Company's segment results. Also included in the Other category of the Company's segment results are its investments in other ventures, including Top Layer Re, Starbound II, Tower Hill Holdings Inc. (Tower Hill), ChannelRe Holdings Ltd. (ChannelRe) and Platinum Underwriters Holdings Ltd. (Platinum).

The Company's Individual Risk segment provides primary insurance and quota share reinsurance.

The Company does not manage its assets by segment; accordingly, net investment income and total assets are not allocated to the segments.

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A summary of the significant components of the Company's revenues and expenses for the three and six months ended June 30, 2008 and 2007 is as follows:

Three months ended June 30, 2008 (in thousands of U.S. dollars, except ratios)	Reinsurance	Individual Risk	Eliminations (1)	Other	Total
Gross premiums written	\$ 487,793	\$ 314,845	\$ 4,937	\$	\$ 807,575
Net premiums written	\$ 353,187	\$ 260,835			\$ 614,022
Net premiums earned	\$ 226,286	\$ 150,287			\$ 376,573
Net claims and claim expenses incurred	20,120	94,097			114,217
Acquisition expenses	25,511	28,102			53,613
Operational expenses	22,756	10,738			33,494
Underwriting income	\$ 157,899	\$ 17,350			175,249
Net investment income				38,685	38,685
Equity in earnings of other ventures				4,872	4,872
Other loss				(24)	(24)
Interest and preference share dividends				(16,512)	(16,512)
Minority interest - DaVinciRe				(41,341)	(41,341)
Other items, net				(1,047)	(1,047)
Net realized losses on investments				(24,161)	(24,161)
Net income available to common shareholders				\$ (39,528)	\$ 135,721
Net claims and claim expenses incurred - current accident year	\$ 57,861	\$ 105,926			\$ 163,787
Net claims and claim expenses incurred - prior accident years	(37,741)	(11,829)			(49,570)
Net claims and claim expenses incurred - total	\$ 20,120	\$ 94,097			\$ 114,217
Net claims and claim expense ratio - current accident year	25.6%	70.5%			43.5%
Net claims and claim expense ratio - prior accident years	(16.7)%	(7.9)%			(13.2)%
Net claims and claim expense ratio - calendar year	8.9%	62.6%			30.3%
Underwriting expense ratio	21.3%	25.9%			23.2%
Combined ratio	30.2%	88.5%			53.5%

(1) Represents gross premiums ceded from the Individual Risk segment to the Reinsurance segment.

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Three months ended June 30, 2007 (in thousands of U.S. dollars, except ratios)	Reinsurance	Individual Risk	Eliminations (1)	Other	Total
Gross premiums written	\$ 606,215	\$ 238,391	\$ 1,254	\$	\$ 845,860
Net premiums written	\$ 428,355	\$ 181,487			\$ 609,842
Net premiums earned	\$ 225,987	\$ 132,467			\$ 358,454
Net claims and claim expenses incurred	62,528	76,326			138,854
Acquisition expenses	25,927	33,582			59,509
Operational expenses	16,451	10,076			26,527
Underwriting income	\$ 121,081	\$ 12,483			133,564
Net investment income				118,140	118,140
Equity in earnings of other ventures				9,675	9,675
Other loss				(5,498)	(5,498)
Interest and preference share dividends				(17,770)	(17,770)
Minority interest - DaVinciRe				(37,399)	(37,399)
Other items, net				(5,980)	(5,980)
Net realized losses on investments				(11,566)	(11,566)
Net income available to common shareholders				\$ 49,602	\$ 183,166
Net claims and claim expenses incurred - current accident year	\$ 112,208	\$ 85,793			\$ 198,001
Net claims and claim expenses incurred - prior accident years	(49,680)	(9,467)			(59,147)
Net claims and claim expenses incurred - total	\$ 62,528	\$ 76,326			\$ 138,854
Net claims and claim expense ratio - current accident year	49.7%	64.8%			55.2%
Net claims and claim expense ratio - prior accident years	(22.0)%	(7.1)%			(16.5)%
Net claims and claim expense ratio - calendar year	27.7%	57.7%			38.7%
Underwriting expense ratio	18.8%	33.0%			24.0%
Combined ratio	46.5%	90.7%			62.7%

(1) Represents gross premiums ceded from the Individual Risk segment to the Reinsurance segment.

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Six months ended June 30, 2008 (in thousands of U.S. dollars, except ratios)	Reinsurance	Individual Risk	Eliminations (1)	Other	Total
Gross premiums written	\$ 931,521	\$ 395,666	\$ 7,426	\$	\$ 1,334,613
Net premiums written	\$ 696,107	\$ 321,031			\$ 1,017,138
Net premiums earned	\$ 458,513	\$ 226,974			\$ 685,487
Net claims and claim expenses incurred	67,189	129,184			196,373
Acquisition expenses	44,026	56,015			100,041
Operational expenses	43,895	19,712			63,607
Underwriting income	\$ 303,403	\$ 22,063			325,466
Net investment income				91,188	91,188
Equity in earnings of other ventures				11,122	11,122
Other income				7,988	7,988
Interest and preference share dividends				(33,891)	(33,891)
Minority interest - DaVinciRe				(81,656)	(81,656)
Other items, net				(12,500)	(12,500)
Net realized losses on investments				(34,831)	(34,831)
Net income available to common shareholders				\$ (52,580)	\$ 272,886
Net claims and claim expenses incurred - current accident year	\$ 128,437	\$ 162,591			\$ 291,028
Net claims and claim expenses incurred - prior accident years	(61,248)	(33,407)			(94,655)
Net claims and claim expenses incurred - total	\$ 67,189	\$ 129,184			\$ 196,373
Net claims and claim expense ratio - current accident year	28.0%	71.6%			42.5%
Net claims and claim expense ratio - prior accident years	(13.3)%	(14.7)%			(13.9)%
Net claims and claim expense ratio - calendar year	14.7%	56.9%			28.6%
Underwriting expense ratio	19.1%	33.4%			23.9%
Combined ratio	33.8%	90.3%			52.5%

(1) Represents gross premiums ceded from the Individual Risk segment to the Reinsurance segment.

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Six months ended June 30, 2007 (in thousands of U.S. dollars, except ratios)	Reinsurance	Individual Risk	Eliminations (1)	Other	Total
Gross premiums written	\$ 1,122,182	\$ 361,707	\$ (5,300)	\$	\$ 1,478,589
Net premiums written	\$ 904,574	\$ 276,295			\$ 1,180,869
Net premiums earned	\$ 480,766	\$ 240,306			\$ 721,072
Net claims and claim expenses incurred	154,655	130,191			284,846
Acquisition expenses	54,289	68,949			123,238
Operational expenses	34,642	20,409			55,051
Underwriting income	\$ 237,180	\$ 20,757			257,937
Net investment income				226,155	226,155
Equity in earnings of other ventures				20,376	20,376
Other loss				(7,701)	(7,701)
Interest and preference share dividends				(40,885)	(40,885)
Minority interest - DaVinciRe				(66,506)	(66,506)
Other items, net				(7,924)	(7,924)
Net realized losses on investments				(7,481)	(7,481)
Net income available to common shareholders				\$ 116,034	\$ 373,971
Net claims and claim expenses incurred - current accident year	\$ 234,614	\$ 156,452			\$ 391,066
Net claims and claim expenses incurred - prior accident years	(79,959)	(26,261)			(106,220)
Net claims and claim expenses incurred - total	\$ 154,655	\$ 130,191			\$ 284,846
Net claims and claim expense ratio - current accident year	48.8%	65.1%			54.2%
Net claims and claim expense ratio - prior accident years	(16.6)%	(10.9)%			(14.7)%
Net claims and claim expense ratio - calendar year	32.2%	54.2%			39.5%
Underwriting expense ratio	18.5%	37.2%			24.7%
Combined ratio	50.7%	91.4%			64.2%

(1) Represents gross premiums ceded from the Individual Risk segment to the Reinsurance segment.

Table of Contents**6. Fair Value Measurements**

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, *Fair Value Measurements* (FAS 157). FAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 clarifies that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets and the lowest priority being unobservable data. Further, FAS 157 requires tabular disclosures of the fair value measurements by level within the fair value hierarchy. The Company adopted FAS 157 effective January 1, 2008. The adoption of FAS 157 did not have a material impact on the Company's consolidated statements of operations or financial condition.

Fair values determined by Level 1 inputs utilize unadjusted quoted prices obtained from active markets for identical assets or liabilities that the Company has access to. The fair value is determined by multiplying the quoted price by the quantity held by the Company. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals, broker quotes and certain pricing indices. Level 3 inputs are based on unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In these cases, significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement of the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the asset or liability.

There have been no material changes in the Company's valuation techniques since the adoption of FAS 157 effective January 1, 2008.

Below is a summary of the assets and liabilities that are measured at fair value on a recurring basis:

At June 30, 2008 (in thousands of U.S. dollars)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed maturity investments available for sale	\$ 3,775,345	\$ 648,806	\$ 3,121,539	\$ 5,000
Short term investments	1,400,884		1,400,884	
Other investments	927,247		468,177	459,070
Other secured assets	107,025		107,025	
Other assets and (liabilities) (1)	33,348	31,775	24,228	(22,655)
	\$ 6,243,849	\$ 680,581	\$ 5,121,853	\$ 441,415

(1) Other assets of \$33.7 million, \$25.1 million and \$7.8 million are included in Level 1, Level 2 and Level 3, respectively. Other liabilities of \$2.0 million, \$0.8 million and \$30.4 million are included in Level 1, Level 2 and Level 3, respectively.

Below is a reconciliation of the beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using Level 3 inputs:

Three months ended March 31, 2008	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			Total
	Fixed maturity investments	Other investments (1)	Other assets and	

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(in thousands of U.S. dollars)	available for sale	(liabilities) (2)
Balance January 1	\$ 5,000	\$ 375,281
Total unrea	\$ (9,950)	\$ 370,331