

PLATINUM UNDERWRITERS HOLDINGS LTD
Form 10-Q
July 26, 2012

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-31341

Platinum Underwriters Holdings, Ltd.
(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

98-0416483
(I.R.S. Employer Identification
No.)

The Belvedere Building
69 Pitts Bay Road
Pembroke, Bermuda
(Address of principal executive
offices)

HM 08
(Zip Code)

(441) 295-7195
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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	<input checked="" type="checkbox"/>	Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	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 registrant had 33,212,487 common shares, par value \$0.01 per share, outstanding as of July 19, 2012.

PLATINUM UNDERWRITERS HOLDINGS, LTD.
 QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2012

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Balance Sheets
June 30, 2012 and December 31, 2011
(\$ in thousands, except share data)

	(Unaudited)	
	June 30, 2012	December 31, 2011
ASSETS		
Investments:		
Fixed maturity available-for-sale securities at fair value (amortized cost - \$2,137,666 and \$2,494,710, respectively)	\$2,309,987	\$2,663,574
Fixed maturity trading securities at fair value (amortized cost - \$104,450 and \$115,156, respectively)	113,847	125,126
Short-term investments	167,778	588,834
Total investments	2,591,612	3,377,534
Cash and cash equivalents	1,465,983	792,510
Accrued investment income	24,541	29,440
Reinsurance premiums receivable	145,132	159,387
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses	4,222	6,302
Prepaid reinsurance premiums	316	8,360
Funds held by ceding companies	111,408	94,546
Deferred acquisition costs	27,620	28,779
Deferred tax assets	25,038	31,613
Other assets	29,065	23,140
Total assets	\$4,424,937	\$4,551,611
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	\$2,229,603	\$2,389,614
Unearned premiums	114,759	121,164
Debt obligations	250,000	250,000
Commissions payable	64,304	62,773
Other liabilities	44,444	37,201
Total liabilities	\$2,703,110	\$2,860,752
Shareholders' Equity		
Common shares, \$0.01 par value, 200,000,000 shares authorized, 33,212,487 and 35,526,400 shares issued and outstanding, respectively	\$332	\$355
Additional paid-in capital	227,482	313,730
Accumulated other comprehensive income	148,562	146,635
Retained earnings	1,345,451	1,230,139
Total shareholders' equity	\$1,721,827	\$1,690,859

Total liabilities and shareholders' equity	\$4,424,937	\$4,551,611
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See accompanying notes to consolidated financial statements.

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Operations (Unaudited)
For the Three and Six Months Ended June 30, 2012 and 2011
(\$ in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenue:				
Net premiums earned	\$145,075	\$172,436	\$283,287	\$355,317
Net investment income	26,155	33,965	54,707	66,343
Net realized gains (losses) on investments	24,978	(4,689)	47,317	(4,282)
Total other-than-temporary impairments	(335)	(548)	(91)	500
Portion of impairment losses recognized in accumulated other comprehensive income	(778)	(1,118)	(2,092)	(3,673)
Net impairment losses on investments	(1,113)	(1,666)	(2,183)	(3,173)
Other income (expense)	(191)	(60)	(670)	1,036
Total revenue	194,904	199,986	382,458	415,241
Expenses:				
Net losses and loss adjustment expenses	67,117	159,357	146,313	478,952
Net acquisition expenses	30,200	34,115	60,857	68,065
Net changes in fair value of derivatives	-	4,474	-	748
Operating expenses	19,696	17,105	36,679	34,256
Net foreign currency exchange losses (gains)	(310)	614	222	803
Interest expense	4,774	4,767	9,546	9,533
Total expenses	121,477	220,432	253,617	592,357
Income (loss) before income taxes	73,427	(20,446)	128,841	(177,116)
Income tax expense (benefit)	5,895	(45)	8,022	477
Net income (loss)	\$67,532	\$(20,401)	\$120,819	\$(177,593)
Earnings (loss) per common share:				
Basic earnings (loss) per common share	\$1.98	\$(0.55)	\$3.48	\$(4.75)
Diluted earnings (loss) per common share	\$1.97	\$(0.55)	\$3.46	\$(4.75)
Shareholder dividends:				
Common shareholder dividends declared	\$2,667	\$2,969	\$5,507	\$5,933
Dividends declared per common share	\$0.08	\$0.08	\$0.16	\$0.16

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
For the Three and Six Months Ended June 30, 2012 and 2011
(\$ in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net income (loss)	\$67,532	\$(20,401)	\$120,819	\$(177,593)
Other comprehensive income, before deferred tax:				
Net change in unrealized gains and losses on available-for-sale securities arising during the period	33,945	55,984	49,002	70,753
Reclassification adjustments:				
Net realized (gains) losses on available-for-sale investments	(25,219)	6,744	(47,897)	3,036
Net impairment losses on investments	1,113	1,666	2,183	3,173
Other comprehensive income, before deferred tax	9,839	64,394	3,288	76,962
Deferred tax on components of other comprehensive income:				
Net change in unrealized gains and losses on available-for-sale securities arising during the period	(2,823)	(9,680)	(2,883)	(10,443)
Reclassification adjustments:				
Net realized (gains) losses on available-for-sale investments	1,194	(2,162)	1,754	(1,918)
Net impairment losses on investments	(106)	(34)	(232)	(79)
Deferred income tax expense	(1,735)	(11,876)	(1,361)	(12,440)
Other comprehensive income, net of deferred tax:				
Net change in unrealized gains and losses on available-for-sale securities arising during the period	31,122	46,304	46,119	60,310
Reclassification adjustments:				
Net realized (gains) losses on available-for-sale investments	(24,025)	4,582	(46,143)	1,118
Net impairment losses on investments	1,007	1,632	1,951	3,094
Other comprehensive income, net of deferred tax	8,104	52,518	1,927	64,522
Comprehensive income (loss)	\$75,636	\$32,117	\$122,746	\$(113,071)

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Shareholders' Equity (Unaudited)
For the Six Months Ended June 30, 2012 and 2011
(\$ in thousands)

	2012	2011
Common shares:		
Balances at beginning of period	\$355	\$377
Exercise of common share options	-	-
Issuance of common shares	-	-
Settlement of equity awards	2	4
Repurchase of common shares	(25)	(8)
Balances at end of period	332	373
Additional paid-in capital:		
Balances at beginning of period	313,730	453,619
Exercise of common share options	1,014	1,132
Issuance of common shares	-	2
Settlement of equity awards	(1,109)	(2,726)
Repurchase of common shares	(89,910)	(33,899)
Purchase of common share options	-	(47,900)
Share based compensation	3,694	2,275
Income tax benefit from share based compensation	63	379
Balances at end of period	227,482	372,882
Accumulated other comprehensive income (loss):		
Balances at beginning of period	146,635	(24,488)
Net change in unrealized gains and losses on available-for-sale securities, net of deferred taxes:		
Change in unrealized gains and losses	7	60,987
Non-credit component of impairment losses	1,920	3,535
Balances at end of period	148,562	40,034
Retained earnings:		
Balances at beginning of period	1,230,139	1,465,947
Net income (loss)	120,819	(177,593)
Common share dividends	(5,507)	(5,933)
Balances at end of period	1,345,451	1,282,421
Total shareholders' equity	\$1,721,827	\$1,695,710

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended June 30, 2012 and 2011
(\$ in thousands)

	2012	2011
Operating Activities:		
Net income (loss)	\$ 120,819	\$(177,593)
Adjustments to reconcile net income (loss) to cash provided by (used in) operations:		
Depreciation and amortization	2,518	1,829
Net realized (gains) losses on investments	(47,317)	4,282
Net impairment losses on investments	2,183	3,173
Net foreign currency exchange losses	222	803
Share-based compensation	4,046	2,275
Deferred income tax expense	5,215	759
Net fixed maturity trading securities activities	9,877	142
Changes in assets and liabilities:		
Decrease (increase) in accrued investment income	4,817	(276)
Decrease in reinsurance premiums receivable	13,778	15,896
Increase in funds held by ceding companies	(17,140)	(5,946)
Decrease in deferred acquisition costs	1,134	4,560
Increase (decrease) in net unpaid and paid losses and loss adjustment expenses	(158,720)	194,976
Increase (decrease) in net unearned premiums	1,833	(34,645)
Increase (decrease) in commissions payable	1,624	(5,531)
Changes in other assets and liabilities	(4,074)	28,584
Net cash provided by (used in) operating activities	(59,185)	33,288
Investing Activities:		
Proceeds from sale of fixed maturity available-for-sale securities	395,269	353,402
Proceeds from sale of fixed maturity trading securities	-	20,413
Proceeds from sale of short-term investments	20,597	27,995
Proceeds from maturity or paydown of fixed maturity available-for-sale securities	179,768	72,694
Proceeds from maturity of short-term investments	577,296	140,014
Acquisition of fixed maturity available-for-sale securities	(172,110)	(34,499)
Acquisition of short-term investments	(168,542)	(211,527)
Net cash provided by (used in) investing activities	832,278	368,492
Financing Activities:		
Dividends paid to common shareholders	(5,507)	(5,933)
Repurchase of common shares	(89,935)	(33,907)
Purchase of common share options	-	(47,900)
Proceeds from exercise of common share options	1,014	1,132
Net cash provided by (used in) financing activities	(94,428)	(86,608)
Effect of foreign currency exchange rate changes on cash	(5,192)	15,724
Net increase (decrease) in cash and cash equivalents	673,473	330,896
Cash and cash equivalents at beginning of period	792,510	987,877
Cash and cash equivalents at end of period	\$ 1,465,983	\$ 1,318,773

Supplemental disclosures of cash flow information:

Income taxes paid	\$9,012	\$417
Interest paid	\$9,375	\$9,375

See accompanying notes to consolidated financial statements.

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended June 30, 2012 and 2011

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation and Consolidation

Platinum Underwriters Holdings, Ltd. ("Platinum Holdings") is a holding company domiciled in Bermuda. Through our reinsurance subsidiaries, we provide property and marine, casualty and finite risk reinsurance coverages to a diverse clientele of insurers and select reinsurers on a worldwide basis.

Platinum Holdings and its consolidated subsidiaries (collectively, the "Company") include Platinum Holdings, Platinum Underwriters Bermuda, Ltd. ("Platinum Bermuda"), Platinum Underwriters Reinsurance, Inc. ("Platinum US"), Platinum Underwriters Finance, Inc. ("Platinum Finance"), Platinum Regency Holdings ("Platinum Regency") and Platinum Administrative Services, Inc. The terms "we," "us," and "our" refer to the Company, unless the context otherwise indicates.

Platinum Regency is an intermediate holding company based in Ireland and a wholly owned subsidiary of Platinum Holdings. Platinum Finance is an intermediate holding company based in the U.S. and a wholly owned subsidiary of Platinum Regency. We operate through two licensed reinsurance subsidiaries, Platinum Bermuda, a Bermuda reinsurance company, and Platinum US, a U.S. reinsurance company. Platinum Bermuda is a wholly owned subsidiary of Platinum Holdings and Platinum US is a wholly owned subsidiary of Platinum Finance. Platinum Administrative Services, Inc. is a subsidiary that provides administrative support services to the Company.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. All material inter-company transactions and accounts have been eliminated in preparing these consolidated financial statements. The consolidated financial statements included in this report as of June 30, 2012 and for the three and six months ended June 30, 2012 and 2011 are unaudited and include all adjustments consisting of normal recurring items that management considers necessary for a fair presentation under U.S. GAAP. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2011.

The preparation of financial statements requires us 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 may differ materially from these estimates. The major estimates used in the preparation of the Company's consolidated financial statements, and therefore considered to be critical accounting estimates, include, but are not limited to, premiums written and earned, unpaid losses and loss adjustment expenses ("LAE"), reinsurance recoverable, valuation of investments and income taxes. In addition, estimates are used to evaluate risk transfer for assumed and ceded reinsurance transactions. Results of changes in estimates are reflected in results of operations in the period in which the change is made. The results of operations for any interim period are not necessarily indicative of results for the full year.

Recently Issued Accounting Standards

In December 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2011-12, "Comprehensive Income: Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No.

2011-05” (“ASU 2011-12”). ASU 2011-12 defers the presentation on the face of the financial statements of the effects of reclassifications of the components of net income and other comprehensive income out of accumulated other comprehensive income for all periods. None of the other requirements of ASU 2011-05, “Presentation of Comprehensive Income” (“ASU 2011-05”) issued in June 2011 are affected by ASU 2011-12. ASU 2011-05 requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. Under the continuous statement approach, the statement would include the components and total of net income, the components and total of other comprehensive income and the total of comprehensive income. Under the two statement approach, the first statement would include the components and total of net income and the second statement would include the components and total of other comprehensive income and the total of comprehensive income. ASU 2011-05 does not change the items that must be reported in other comprehensive income. ASU 2011-05 is effective retrospectively for interim and annual periods beginning after December 15, 2011, with early adoption permitted. We adopted the guidance as of January 1, 2012 and included a separate statement of comprehensive income (loss) in our financial statements. The separate statement of comprehensive income (loss) incorporated the effects of reclassification adjustments recognized in our statement of operations.

In May 2011, the FASB issued ASU No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirement in U.S. GAAP and IFRSs” (“ASU 2011-04”). ASU 2011-04 does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required and permitted under U.S. GAAP or International Financial Reporting Standards (“IFRS”). For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. ASU 2011-04 is effective on a prospective basis for interim and annual periods beginning after December 15, 2011, with early adoption not permitted. In the period of adoption, a reporting entity is required to disclose a change, if any, in valuation technique and related inputs that result from applying ASU 2011-04 and to quantify the total effect, if practicable. We adopted the guidance as of January 1, 2012 and there were no changes in valuation technique or inputs. Additional disclosures required under ASU 2011-04 have been reflected in Note 3.

In October 2010, the FASB issued ASU No. 2010-26, “Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts” (“ASU 2010-26”). ASU 2010-26 modifies the types of costs that may be deferred, allowing insurance companies to only defer costs directly related to successful acquisition of new or renewal contracts. These costs include incremental direct costs of successful contracts, the portion of employees’ salaries and benefits related to time spent on acquisition activities for successful contracts and other costs incurred in the acquisition of contracts. Additional disclosure of the type of acquisition costs capitalized is also required. ASU 2010-26 is effective on a prospective basis for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted as of the beginning of a company’s annual period. We adopted the guidance as of January 1, 2012 and there was no impact on our financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three and Six Months Ended June 30, 2012 and 2011

2. Investments

Fixed Maturity Available-for-sale Securities

The following table sets forth our fixed maturity available-for-sale securities as of June 30, 2012 and December 31, 2011 (\$ in thousands):

	Amortized Cost	Included in Accumulated Other Comprehensive Income		Fair Value	Non-credit portion of OTTI(1)
		Gross Unrealized Gains	Gross Unrealized Losses		
June 30, 2012:					
U.S. Government	\$ 4,667	\$ 344	\$ -	\$ 5,011	\$ -
U.S. Government agencies	10,003	161	-	10,164	-
Municipal bonds	1,204,826	148,029	18	1,352,837	-
Non-U.S. governments	92,948	1,532	185	94,295	-
Corporate bonds	330,863	20,255	716	350,402	-
Commercial mortgage-backed securities	188,789	13,941	1,374	201,356	171
Residential mortgage-backed securities	283,247	2,355	9,320	276,282	6,068
Asset-backed securities	22,323	775	3,458	19,640	3,096
Total fixed maturity available-for-sale securities	\$ 2,137,666	\$ 187,392	\$ 15,071	\$ 2,309,987	\$ 9,335
December 31, 2011:					
U.S. Government	\$ 4,702	\$ 381	\$ -	\$ 5,083	\$ -
U.S. Government agencies	100,000	259	-	100,259	-
Municipal bonds	1,510,658	150,280	178	1,660,760	-
Non-U.S. governments	69,992	1,929	655	71,266	-
Corporate bonds	329,218	21,093	763	349,548	-
Commercial mortgage-backed securities	195,309	11,884	2,584	204,609	196
Residential mortgage-backed securities	261,187	2,866	12,426	251,627	8,397
Asset-backed securities	23,644	489	3,711	20,422	2,821
Total fixed maturity available-for-sale securities	\$ 2,494,710	\$ 189,181	\$ 20,317	\$ 2,663,574	\$ 11,414

(1) The non-credit portion of other than temporary impairments ("OTTI") represents the amount of unrealized losses on impaired securities that were not realized in earnings as of the reporting date. These unrealized losses are included in gross unrealized losses as of June 30, 2012 and December 31, 2011.

Our fixed maturity available-for-sale securities are U.S. dollar denominated securities. Non-U.S. governments consist primarily of securities issued by governments and financial institutions that are explicitly guaranteed by the respective

government. At December 31, 2011, U.S. Government agencies consist of securities issued by financial institutions under the Temporary Liquidity Guarantee Program guaranteed by the Federal Deposit Insurance Corporation.

Fixed Maturity Trading Securities

The following table sets forth the fair value of our fixed maturity trading securities as of June 30, 2012 and December 31, 2011 (\$ in thousands):

	June 30, 2012	December 31, 2011
Non-U.S. dollar denominated securities:		
Non-U.S. governments	\$ 113,847	\$ 125,126
Total fixed maturity trading securities	\$ 113,847	\$ 125,126

Our non-U.S. government fixed maturity trading securities are non-U.S. dollar denominated investments held for the purposes of hedging our non-U.S. dollar foreign currency reinsurance liabilities.

In prior periods, we have used insurance-linked securities to actively manage our exposure to catastrophe loss. We elected to record our investments in insurance-linked securities using the fair value option attributes of FASB Accounting Standards Codification ("ASC") 825, "Financial Instruments" ("ASC 825"), and recorded these in fixed maturity trading securities. There were mark-to-market adjustments recorded under ASC 825 of less than \$0.1 million of net realized losses for the three months ended June 30, 2011 and \$1.3 million of net realized losses on investments for the six months ended June 30, 2011. At acquisition, we determine our trading intent in the near term of our fixed maturity trading securities accounted for in accordance with ASC 825. If we do not intend to sell these securities in the near term, the purchases and sales are included in investing activities in our consolidated statements of cash flows, otherwise they are included in operating activities. For the six months ended June 30, 2011, there were proceeds from sales of \$20.4 million and no purchases of trading securities accounted for in accordance with ASC 825 that were included in investing activities in the statements of cash flows.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three and Six Months Ended June 30, 2012 and 2011

Short-term Investments

The following table sets forth the fair value of our short-term investments as of June 30, 2012 and December 31, 2011 (\$ in thousands):

	June 30, 2012	December 31, 2011
Available-for-sale:		
U.S. Government	\$ 62,352	\$ 322,320
U.S. Government agencies	-	85,389
Trading:		
Non-U.S. governments	105,426	181,125
Total short-term investments	\$ 167,778	\$ 588,834

Our U.S. dollar denominated short-term investments are accounted for as available-for-sale and our non-U.S. dollar denominated short-term investments are accounted for in accordance with the fair value option attributes of ASC 825. The mark-to-market adjustments on short-term investments recognized under ASC 825 contributed no net realized gains or losses in the three months ended June 30, 2012 and less than \$0.1 million of net realized losses on investments in the six months ended June 30, 2012. The mark-to-market adjustments on short-term investments contributed less than \$0.1 million of net realized losses for the three months ended June 30, 2011 and less than \$0.1 million of net realized gains on investments for the six months ended June 30, 2011.

For the six months ended June 30, 2012, we had purchases of \$106.1 million, proceeds from sales of \$20.6 million and proceeds from maturities of \$169.6 million from non-U.S. dollar denominated short-term investments accounted for in accordance with ASC 825 that were included in investing activities in the statements of cash flows. For the six months ended June 30, 2011, we had purchases of \$132.4 million, proceeds from maturities of \$30.6 million and no proceeds from sales from non-U.S. dollar denominated short-term investments accounted for in accordance with ASC 825 that were included in investing activities in the statements of cash flows.

Other-Than-Temporary Impairments

We analyze the creditworthiness of our investment portfolio by reviewing various performance metrics of the issuer, including financial condition, credit ratings and other public information. We determined that none of our government bonds, municipal bonds or corporate bonds were other-than-temporarily impaired for the three and six months ended June 30, 2012 and 2011.

We analyze our commercial mortgage-backed securities ("CMBS") on a periodic basis using default loss models based on the performance of the underlying loans. Performance metrics include delinquencies, defaults, foreclosures, debt-service-coverage ratios and cumulative losses incurred. The expected losses for a mortgage pool are compared with the current level of credit support, which generally represents the point at which our security would experience losses. We evaluate projected cash flows as well as other factors in order to determine if a credit impairment has occurred. We recorded no net impairment losses related to CMBS for the three months ended June 30, 2012 and 2011, respectively, and less than \$0.1 million of net impairment losses and no net impairment losses for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, the single largest unrealized loss within our CMBS portfolio was \$0.7 million related to a security with an amortized cost of \$4.8 million.

Residential mortgage-backed securities (“RMBS”) include U.S. Government agency RMBS and non-agency RMBS. Securities with underlying sub-prime mortgages as collateral are included in asset-backed securities (“ABS”). We analyze our non-agency RMBS and sub-prime ABS on a periodic basis using default loss models based on the performance of the underlying loans. Performance metrics include delinquencies, defaults, foreclosures, prepayment speeds and cumulative losses incurred. The expected losses for a mortgage pool are compared with the current level of credit support, which generally represents the point at which our security would experience losses. We evaluate projected cash flows as well as other factors in order to determine if a credit impairment has occurred. We recorded net impairment losses related to non-agency RMBS of \$1.1 million and \$1.5 million for the three months ended June 30, 2012 and 2011, respectively, and \$2.1 million and \$2.4 million for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, the single largest unrealized loss within our RMBS portfolio was \$2.0 million related to a non-agency RMBS security with an amortized cost of \$2.4 million.

We had no net impairment losses related to sub-prime ABS for the three months ended June 30, 2012 and \$0.2 million of net impairment losses for the three months ended June 30, 2011. We had no net impairment losses related to sub-prime ABS for the six months ended June 30, 2012 and \$0.8 million of net impairment losses for the six months ended June 30, 2011. As of June 30, 2012, the single largest unrealized loss within our sub-prime ABS portfolio was \$2.2 million related to a security with an amortized cost of \$4.4 million.

The following table sets forth a summary of the cumulative credit losses recognized on our fixed maturity available-for-sale securities for the three months ended June 30, 2012 and 2011 (\$ in thousands):

	2012	2011
Beginning balance, April 1	\$60,444	\$48,138
Credit losses on securities not previously impaired	-	20
Additional credit losses on securities previously impaired	1,113	1,646
Reduction for paydowns and securities sold	(3,464)	(1,786)
Reduction for increases in cash flows expected to be collected	(219)	(146)
Ending balance, June 30	\$57,874	\$47,872

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three and Six Months Ended June 30, 2012 and 2011

The following table sets forth a summary of the cumulative credit losses recognized on our fixed maturity available-for-sale securities for the six months ended June 30, 2012 and 2011 (\$ in thousands):

	2012	2011
Beginning balance, January 1	\$61,841	\$48,845
Credit losses on securities not previously impaired	-	20
Additional credit losses on securities previously impaired	2,183	3,153
Reduction for paydowns and securities sold	(5,721)	(3,901)
Reduction for increases in cash flows expected to be collected	(429)	(245)
Ending balance, June 30	\$57,874	\$47,872

As of June 30, 2012, total cumulative credit losses were related to CMBS, non-agency RMBS and sub-prime ABS. The cumulative credit losses we recorded on CMBS of \$4.1 million were on four securities issued from 2006 to 2007. As of June 30, 2012, 6.4% of the mortgages backing these securities were 90 days or more past due and 0.9% of the mortgages had incurred cumulative losses. For these securities, the expected losses for the underlying mortgages were greater than the remaining average credit support of 20.3%. The cumulative credit losses we recorded on non-agency RMBS and sub-prime ABS of \$53.8 million were on twenty-eight securities issued from 2004 to 2007. As of June 30, 2012, 16.6% of the mortgages backing these securities were 90 days or more past due and 5.5% of the mortgages had incurred cumulative losses. For these securities, the expected losses for the underlying mortgages were greater than the remaining average credit support of 6.8%.

Unrealized Losses

The following table sets forth our gross unrealized losses on securities classified as fixed maturity available-for-sale aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position. The amounts only relate to securities in an unrealized loss position as of June 30, 2012 and December 31, 2011 (\$ in thousands):

	June 30, 2012		December 31, 2011	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Less than twelve months:				
Municipal bonds	\$ 5,801	\$1	\$4,751	\$131
Non-U.S. governments	-	-	9,988	29
Corporate bonds	37,419	716	12,526	763
Commercial mortgage-backed securities	11,398	175	19,797	1,047
Residential mortgage-backed securities	96,128	371	131,574	2,112
Asset-backed securities	703	258	580	84
Total	\$ 151,449	\$1,521	\$179,216	\$4,166
Twelve months or more:				
Municipal bonds	\$ 3,014	\$17	\$3,002	\$47
Non-U.S. governments	4,814	185	4,373	626
Corporate bonds	-	-	-	-
Commercial mortgage-backed securities	16,529	1,199	6,171	1,537
Residential mortgage-backed securities	46,116	8,949	43,704	10,314

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Asset-backed securities	16,614	3,200	16,854	3,627
Total	\$ 87,087	\$ 13,550	\$ 74,104	\$ 16,151
Total unrealized losses:				
Municipal bonds	\$ 8,815	\$ 18	\$ 7,753	\$ 178
Non-U.S. governments	4,814	185	14,361	655
Corporate bonds	37,419	716	12,526	763
Commercial mortgage-backed securities	27,927	1,374	25,968	2,584
Residential mortgage-backed securities	142,244	9,320	175,278	12,426
Asset-backed securities	17,317	3,458	17,434	3,711
Total	\$ 238,536	\$ 15,071	\$ 253,320	\$ 20,317

We believe that the gross unrealized losses in our fixed maturity available-for-sale securities portfolio represent temporary declines in fair value. We believe that the unrealized losses are not necessarily predictive of ultimate performance and that the provisions we have made for net impairment losses are adequate. However, economic conditions may deteriorate more than expected and may adversely affect the expected cash flows of our securities, which in turn may lead to impairment losses being recorded in future periods. Conversely, economic conditions may improve more than expected and favorably increase the expected cash flows of our impaired securities, which would be earned through net investment income over the remaining life of the security.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three and Six Months Ended June 30, 2012 and 2011

Net Investment Income

The following table sets forth our net investment income for the three and six months ended June 30, 2012 and 2011 (\$ in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Fixed maturity securities	\$24,583	\$32,561	\$51,870	\$64,412
Short-term investments and cash and cash equivalents	1,989	2,091	3,811	3,590
Funds held	600	395	1,254	613
Subtotal	27,172	35,047	56,935	68,615
Investment expenses	(1,017)	(1,082)	(2,228)	(2,272)
Net investment income	\$26,155	\$33,965	\$54,707	\$66,343

Net Realized Gains (Losses) on Investments

The following table sets forth our net realized gains (losses) on investments for the three and six months ended June 30, 2012 and 2011 (\$ in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Gross realized gains on the sale of investments	\$25,263	\$477	\$47,941	\$4,421
Gross realized losses on the sale of investments	-	(6,894)	(1)	(6,897)
Net realized gains (losses) on the sale of investments	25,263	(6,417)	47,940	(2,476)
Mark-to-market adjustments on trading securities	(285)	1,728	(623)	(1,806)
Net realized gains (losses) on investments	\$24,978	\$(4,689)	\$47,317	\$(4,282)

Maturities

The actual maturities of our fixed maturity available-for-sale and trading securities could differ from stated maturities due to call or prepayment provisions. The following table sets forth the amortized cost and fair value of our fixed maturity available-for-sale and trading securities by stated maturity as of June 30, 2012 (\$ in thousands):

	Amortized	
	Cost	Fair Value
Due in one year or less	\$93,049	\$93,926
Due from one to five years	430,712	456,377
Due from five to ten years	570,958	626,049
Due in ten or more years	653,038	750,204
Mortgage-backed and asset-backed securities	494,359	497,278
Total	\$2,242,116	\$2,423,834

3.

Fair Value Measurements

The accounting guidance relating to fair value measurements addresses how a company should measure fair value when required to use a fair value measure for recognition or disclosure purposes. The fair values of our financial assets and liabilities addressed by this guidance are determined primarily through the use of observable inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from external independent sources. Unobservable inputs reflect management's assumptions about what market participants' assumptions would be in pricing the asset or liability based on the best information available. We classify our financial assets and liabilities in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement. This classification requires judgment in assessing the market and pricing methodologies for a particular security. The fair value hierarchy is comprised of the following three levels:

Level 1: Valuations are based on unadjusted quoted prices in active markets for identical financial assets or liabilities;

Level 2: Valuations are based on prices obtained from independent index providers, pricing vendors or broker-dealers using observable inputs for financial assets and liabilities; and

Level 3: Valuations are based on unobservable inputs for assets and liabilities where there is little or no market activity. Management's assumptions and/or internal valuation pricing models may be used to determine the fair value of financial assets or liabilities.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three and Six Months Ended June 30, 2012 and 2011

The following table presents the fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis by the Company as of June 30, 2012 and December 31, 2011 (\$ in thousands):

	Fair Value Measurement Using:			
	Total	Level 1	Level 2	Level 3
June 30, 2012:				
Investments:				
U.S. Government	\$5,011	\$5,011	\$-	\$-
U.S. Government agencies	10,164	-	10,164	-
Municipal bonds	1,352,837	-	1,352,837	-
Non-U.S. governments	208,142	55,431	152,711	-
Corporate bonds	350,402	-	350,402	-
Commercial mortgage-backed securities	201,356	-	201,356	-
Residential mortgage-backed securities	276,282	-	268,821	7,461
Asset-backed securities	19,640	-	18,074	1,566
Short-term investments	167,778	-	167,778	-
Total	\$2,591,612	\$60,442	\$2,522,143	\$9,027
December 31, 2011:				
Investments:				
U.S. Government	\$5,083	\$5,083	\$-	\$-
U.S. Government agencies	100,259	-	100,259	-
Municipal bonds	1,660,760	-	1,660,760	-
Non-U.S. governments	196,392	55,561	140,831	-
Corporate bonds	349,548	-	349,548	-
Commercial mortgage-backed securities	204,609	-	204,609	-
Residential mortgage-backed securities	251,627	-	243,481	8,146
Asset-backed securities	20,422	-	18,555	1,867
Short-term investments	588,834	34,894	553,940	-
Total	\$3,377,534	\$95,538	\$3,271,983	\$10,013

The fair values of our fixed maturity securities and short-term investments are generally based on prices obtained from independent index providers, pricing vendors or broker-dealers using observable inputs. Fixed maturity securities and short-term investments are generally valued using the market approach. The following table describes the valuation techniques, assumptions, and significant inputs used to determine the fair value of our financial assets and liabilities as well as their classification pursuant to the fair value hierarchy:

U.S. Government	The fair values of U.S. Government securities were based on quoted prices in active markets for identical assets. The fair value measurements were classified as Level 1.
U.S Government agencies	Our U.S. Government agencies portfolio consisted of securities issued by financial institutions guaranteed by the Federal Deposit Insurance Corporation. The observable inputs used to price these securities may include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. The fair value measurements were classified as

Level 2.

Municipal bonds	The fair values of municipal bonds were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark securities, bids, credit risks and economic indicators. The fair value measurements were classified as Level 2.
Non-U.S. governments	Our non-U.S. government bond portfolio consisted of securities issued primarily by governments, provinces, agencies and supranationals as well as debt issued by financial institutions that is guaranteed by non-U.S. governments. The fair values of non-U.S. government securities were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. The fair value measurements were classified as Level 1 or Level 2.
Corporate bonds	The observable inputs used to price corporate issues may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark securities, bids, credit risks and industry and economic indicators. The fair value measurements were classified as Level 2.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
 Notes to Consolidated Financial Statements (Unaudited), continued
 For the Three and Six Months Ended June 30, 2012 and 2011

Commercial mortgage-backed securities	The fair values of CMBS were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, security cash flows and structures, delinquencies, loss severities and default rates. The fair value measurements were classified as Level 2.
Residential mortgage-backed securities	Our RMBS portfolio was comprised of securities issued by U.S. Government agencies and by non-agency institutions. The observable inputs used to price U.S. Government agency RMBS may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, loan level information and prepayment speeds. The observable inputs used to price non-agency RMBS may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, security cash flows and structures, prepayment speeds, delinquencies, loss severities and default rates. The fair value measurements were classified as Level 2 or Level 3.
Asset-backed securities	The fair values of ABS were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, security cash flows and structures, type of collateral, prepayment speeds, delinquencies, loss severities and default rates. The fair value measurements were classified as Level 2 or Level 3.
Short-term investments	Short-term investments were carried at fair value based on observable inputs or carried at amortized cost, which approximates fair value. The fair value measurements were classified as Level 1 or Level 2.
Derivative instruments	Our derivative instruments may include interest rate options, commodity options and other derivative instruments. See Note 4 for additional disclosure on our derivative instruments. Our interest rate and commodity options were exchange traded and the fair values were based on quoted prices in active markets for identical assets. The fair values were classified as Level 1. The fair value of our other derivative instrument was determined by management primarily using unobservable inputs through the application of our own assumptions and internal valuation pricing models. The fair value was classified as Level 3.

The fair value measurements of our non-agency RMBS and sub-prime ABS classified as Level 3 used significant unobservable inputs that include prepayment rates, probability of default, and loss severity in the event of default. These measurements were based upon unadjusted third party pricing sources. The fair value measurement of our other derivative instrument classified as Level 3 used significant unobservable inputs through the application of our own assumptions and internal valuation pricing models. Unobservable inputs used in the internal valuation pricing model included the unpaid contract premiums, probability of losses triggered under the covered perils for first and second events, the remaining time to the end of the annual contract period and the seasonality of risks. Significant increases or decreases in any of these inputs in isolation may result in a significantly lower or higher fair value

measurement.

Level 3 Financial Assets and Liabilities

The following tables reconcile the beginning and ending balance for our Level 3 financial assets and liabilities measured at fair value on a recurring basis for the three months ended June 30, 2012 and 2011 (\$ in thousands):

	Three Months Ended June 30, 2012			Total
	Residential mortgage-backed securities	Asset-backed securities	Derivatives	
Beginning balance, April 1	\$5,564	\$ 1,723	\$-	\$7,287
Purchases	-	-	-	-
Issuances	-	-	-	-
Settlements	-	-	-	-
Sales, maturities and paydowns	(641)	-	-	(641)
Total net realized gains included in earnings	-	-	-	-
Total increase (decrease) in fair value of the derivative instrument included in earnings	-	-	-	-
Total net unrealized gains (losses) included in comprehensive income (loss)	285	(157)	-	128
Transfers into Level 3	2,253	-	-	2,253
Transfers out of Level 3	-	-	-	-
Ending balance, June 30	\$7,461	\$ 1,566	\$-	\$9,027
Total increase (decrease) in fair value of the financial assets and liabilities included in earnings for the period	\$-	\$ -	\$-	\$-

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three and Six Months Ended June 30, 2012 and 2011

	Three Months Ended June 30, 2011			
	Residential mortgage-backed securities	Asset-backed securities	Derivatives	Total
Beginning balance, April 1	\$3,305	\$ 909	\$1,257	\$5,471
Purchases	-	-	-	-
Issuances	-	-	-	-
Settlements	-	-	2,427	2,427
Sales, maturities and paydowns	(89)	-	-	(89)
Total net realized gains included in earnings	-	-	-	-
Total increase (decrease) in fair value of the derivative instrument included in earnings	-	-	(4,474)	(4,474)
Total net unrealized gains (losses) included in comprehensive income (loss)	(407)	525	-	118
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	(1,434)	-	(1,434)
Ending balance, June 30	\$2,809	\$ -	\$(790)	\$2,019
Total increase (decrease) in fair value of the financial assets and liabilities included in earnings for the period	\$-	\$ -	\$(4,474)	\$(4,474)

The following tables reconcile the beginning and ending balance for our Level 3 financial assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2012 and 2011 (\$ in thousands):

	Six Months Ended June 30, 2012			
	Residential mortgage-backed securities	Asset-backed securities	Derivatives	Total
Beginning balance, January 1	\$8,146	\$ 1,867	\$-	\$10,013
Purchases	-	-	-	-
Issuances	-	-	-	-
Settlements	-	-	-	-
Sales, maturities and paydowns	(734)	-	-	(734)
Total net realized gains included in earnings	-	-	-	-
Total increase (decrease) in fair value of the derivative instrument included in earnings	-	-	-	-