PLATINUM UNDERWRITERS HOLDINGS LTD
Form 10-Q
April 29, 2011

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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 March 31, 2011

OR

o 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<br>(State or other jurisdiction of incorporation or organization) | 98-0416483<br>(I.R.S. Employer Identification No.) |
|---|---|
| The Belvedere Building<br>69 Pitts Bay Road<br>Pembroke, Bermuda<br>(Address of principal executive offices) | HM 08<br>(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 X No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§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 X 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 | X | | 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 X

The registrant had 37,269,612 common shares, par value $0.01 per share, outstanding as of April 20, 2011.

PLATINUM UNDERWRITERS HOLDINGS, LTD.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2011

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Balance Sheets
($ in thousands, except share data)

| | (Unaudited) March 31, 2011 | December 31, 2010 |
|---|---|---|
| ASSETS | | |
| Investments: | | |
| Fixed maturity available-for-sale securities at fair value (amortized cost – $2,811,235 and $2,889,502, respectively) | $ 2,800,128 | $ 2,865,827 |
| Fixed maturity trading securities at fair value (amortized cost – $174,025 and $174,631, respectively) | 178,253 | 182,146 |
| Short-term investments | 97,153 | 176,648 |
| Total investments | 3,075,534 | 3,224,621 |
| Cash and cash equivalents | 1,064,731 | 987,877 |
| Accrued investment income | 33,855 | 31,288 |
| Reinsurance premiums receivable | 208,959 | 162,682 |
| Reinsurance recoverable on ceded losses and loss adjustment expenses | 45,577 | 13,973 |
| Prepaid reinsurance premiums | 4,415 | 4,461 |
| Funds held by ceding companies | 76,914 | 84,078 |
| Deferred acquisition costs | 36,417 | 36,584 |
| Deferred tax assets | 47,105 | 47,777 |
| Other assets | 23,267 | 20,972 |
| Total assets | $ 4,616,774 | $ 4,614,313 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | | |
| Unpaid losses and loss adjustment expenses | $ 2,428,477 | $ 2,217,378 |
| Unearned premiums | 167,516 | 154,975 |
| Debt obligations | 250,000 | 250,000 |
| Commissions payable | 64,816 | 59,388 |
| Other liabilities | 40,792 | 37,117 |
| Total liabilities | $ 2,951,601 | $ 2,718,858 |
| | | |
| Shareholders' Equity | | |
| Common shares, $0.01 par value, 200,000,000 shares authorized, 37,269,612 and 37,757,926 shares issued and outstanding, respectively | $ 373 | $ 377 |
| Additional paid-in capital | 371,493 | 453,619 |
| Accumulated other comprehensive loss | (12,484) | (24,488) |
| Retained earnings | 1,305,791 | 1,465,947 |
| Total shareholders' equity | $ 1,665,173 | $ 1,895,455 |
| | | |
| Total liabilities and shareholders' equity | $ 4,616,774 | $ 4,614,313 |

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)
For the Three Months Ended March 31, 2011 and 2010
($ in thousands, except per share data)

| | 2011 | 2010 |
|---|---|---|
| Revenue: | | |
| Net premiums earned | $182,881 | $220,178 |
| Net investment income | 32,378 | 37,505 |
| Net realized gains on investments | 407 | 5,457 |
| Total other-than-temporary impairments | 1,048 | (12,638) |
| Portion of impairment losses recognized in accumulated other comprehensive loss | (2,555) | (5,464) |
| Net impairment losses on investments | (1,507) | (18,102) |
| Other income | 1,096 | 273 |
| Total revenue | 215,255 | 245,311 |
| Expenses: | | |
| Net losses and loss adjustment expenses | 319,595 | 164,568 |
| Net acquisition expenses | 33,950 | 37,329 |
| Net changes in fair value of derivatives | (3,726) | 2,315 |
| Operating expenses | 17,151 | 21,741 |
| Net foreign currency exchange losses (gains) | 189 | (1,229) |
| Interest expense | 4,766 | 4,760 |
| Total expenses | 371,925 | 229,484 |
| Income (loss) before income taxes | (156,670) | 15,827 |
| Income tax expense | 522 | 406 |
| Net income (loss) | $(157,192) | $15,421 |
| Earnings (loss) per common share: | | |
| Basic earnings (loss) per common share | $(4.20) | $0.34 |
| Diluted earnings (loss) per common share | $(4.20) | $0.32 |
| Comprehensive income (loss): | | |
| Net income (loss) | $(157,192) | $15,421 |
| Other comprehensive income – net change in unrealized gains and losses on available-for-sale securities, net of deferred taxes | 12,004 | 47,872 |
| Comprehensive income (loss) | $(145,188) | $63,293 |
| Shareholder dividends: | | |
| Common shareholder dividends declared | $2,964 | $3,655 |
| Dividends declared per common share | $0.08 | $0.08 |

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Shareholders' Equity (Unaudited)
For the Three Months Ended March 31, 2011 and 2010
($ in thousands)

| | 2011 | 2010 |
|---|---|---|
| Common shares: | | |
| Balances at beginning of period | $377 | $459 |
| Exercise of common share options | – | 2 |
| Settlement of equity awards | 4 | 3 |
| Repurchase of common shares | (8) | (17) |
| Balances at end of period | 373 | 447 |
| | | |
| Additional paid-in capital: | | |
| Balances at beginning of period | 453,619 | 883,425 |
| Exercise of common share options | 725 | 6,811 |
| Issuance of common shares | 2 | 5 |
| Share based compensation | 1,107 | 3,559 |
| Settlement of equity awards | (2,531) | (966) |
| Repurchase of common shares | (33,899) | (63,204) |
| Purchase of common share options | (47,900) | – |
| Tax benefit from share based compensation | 370 | 82 |
| Balances at end of period | 371,493 | 829,712 |
| | | |
| Accumulated other comprehensive loss: | | |
| Balances at beginning of period | (24,488) | (70,005) |
| Net change in unrealized gains and losses on available-for-sale securities, net of deferred taxes: | | |
| Change in unrealized gains and losses | 9,499 | 52,062 |
| Non-credit component of impairment losses | 2,505 | (4,190) |
| Balances at end of period | (12,484) | (22,133) |
| | | |
| Retained earnings: | | |
| Balances at beginning of period | 1,465,947 | 1,263,852 |
| Net income (loss) | (157,192) | 15,421 |
| Common share dividends | (2,964) | (3,655) |
| Balances at end of period | 1,305,791 | 1,275,618 |
| | | |
| Total shareholders' equity | $1,665,173 | $2,083,644 |

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2011 and 2010
($ in thousands)

| | 2011 | 2010 |
|---|---|---|
| Operating Activities: | | |
| Net income (loss) | $(157,192) | $15,421 |
| Adjustments to reconcile net income (loss) to cash provided by (used in) operations: | | |
| Depreciation and amortization | 1,531 | 2,794 |
| Net realized gains on investments | (407) | (5,457) |
| Net impairment losses on investments | 1,507 | 18,102 |
| Net foreign currency exchange losses (gains) | 189 | (1,229) |
| Share-based compensation | 1,107 | 3,559 |
| Deferred income tax expense | 108 | 1,364 |
| Fixed maturity trading securities activities, net | – | 1,403 |
| Changes in assets and liabilities: | | |
| Increase in accrued investment income | (2,484) | (2,308) |
| Increase in reinsurance premiums receivable | (44,426) | (51,557) |
| Decrease (increase) in funds held by ceding companies | 7,460 | (1,373) |
| Decrease (increase) in deferred acquisition costs | 259 | (3,041) |
| Increase in net unpaid losses and loss adjustment expenses | 170,975 | 39,080 |
| Increase in net unearned premiums | 11,905 | 27,249 |
| Increase in commissions payable | 5,271 | 6,100 |
| Changes in other assets and liabilities | (1,040) | (15,683) |
| Other net | 9 | – |
| Net cash provided by (used in) operating activities | (5,228) | 34,424 |
| | | |
| Investing Activities: | | |
| Proceeds from sale of fixed maturity available-for-sale securities | 60,524 | 280,339 |
| Proceeds from sale of fixed maturity trading securities | 5,225 | – |
| Proceeds from sale of short-term investments | 25,995 | 9,372 |
| Proceeds from maturity or paydown of fixed maturity available-for-sale securities | 47,901 | 87,452 |
| Proceeds from maturity of short-term investments | 63,700 | 1,300 |
| Acquisition of fixed maturity available-for-sale securities | (29,238) | (286,490) |
| Acquisition of short-term investments | (10,948) | (213,033) |
| Net cash provided by (used in) investing activities | 163,159 | (121,060) |
| | | |
| Financing Activities: | | |
| Dividends paid to common shareholders | (2,964) | (3,655) |
| Repurchase of common shares | (33,907) | (63,221) |
| Purchase of common share options | (47,900) | – |
| Proceeds from exercise of common share options | 725 | 6,813 |
| Net cash provided by (used in) financing activities | (84,046) | (60,063) |
| | | |
| Effect of foreign currency exchange rate changes on cash | 2,969 | (3,043) |

| | | |
|---|---|---|
| Net increase (decrease) in cash and cash equivalents | 76,854 | (149,742 ) |
| | | |
| Cash and cash equivalents at beginning of period | 987,877 | 682,784 |
| | | |
| Cash and cash equivalents at end of period | $1,064,731 | $533,042 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Income taxes paid | $236 | $7,286 |
| Interest paid | $– | $– |

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
For the Three Months Ended March 31, 2011 and 2010

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation and Consolidation

Platinum Underwriters Holdings, Ltd. (“Platinum Holdings”) is a holding company that is domiciled in Bermuda and was organized in 2002. 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”) includes Platinum Holdings, Platinum Underwriters Bermuda, Ltd. (“Platinum Bermuda”), Platinum Underwriters Reinsurance, Inc. (“Platinum US”), Platinum Re (UK) Limited (“Platinum UK”), Platinum Underwriters Finance, Inc. ("Platinum Finance"), Platinum Regency Holdings ("Platinum Regency"), Platinum Administrative Services, Inc. and Platinum UK Services Company Limited. 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 a U.S. based intermediate holding company 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. and Platinum UK Services Company Limited are subsidiaries that provide 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 March 31, 2011 and for the three months ended March 31, 2011 and 2010 are unaudited and include 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, 2010.

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 as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ 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 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 Pronouncements

In October 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 are currently evaluating the impact of the adoption of ASU 2010-26 on our financial position and results of operations.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2011 and 2010

2. Investments

Available-for-sale Securities

The following table sets forth our fixed maturity available-for-sale securities as of March 31, 2011 and December 31, 2010 ($ in thousands):

| | | Included in Accumulated Other Comprehensive Loss | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Non-credit OTTI (1) |
| March 31, 2011: | | | | | |
| U.S. Government | $408,856 | $1,927 | $20,604 | $390,179 | $– |
| U.S. Government agencies | 100,000 | 487 | – | 100,487 | – |
| Corporate bonds | 321,784 | 14,950 | 1,144 | 335,590 | – |
| Commercial mortgage-backed securities | 193,231 | 11,095 | 981 | 203,345 | – |
| Residential mortgage-backed securities | 162,130 | 3,121 | 26,182 | 139,069 | 14,215 |
| Asset-backed securities | 27,378 | 345 | 3,368 | 24,355 | 3,103 |
| Municipal bonds | 1,537,894 | 30,989 | 22,899 | 1,545,984 | – |
| Non-U.S. governments | 59,962 | 1,684 | 527 | 61,119 | – |
| Total fixed maturity available-for-sale securities | $2,811,235 | $64,598 | $75,705 | $2,800,128 | $17,318 |
| | | | | | |
| December 31, 2010: | | | | | |
| U.S. Government | $408,843 | $267 | $17,807 | $391,303 | $– |
| U.S. Government agencies | 100,000 | 547 | – | 100,547 | – |
| Corporate bonds | 349,370 | 18,589 | 1,059 | 366,900 | – |
| Commercial mortgage-backed securities | 195,050 | 9,656 | 1,393 | 203,313 | 43 |
| Residential mortgage-backed securities | 192,345 | 3,601 | 29,488 | 166,458 | 15,794 |
| Asset-backed securities | 28,203 | 289 | 4,924 | 23,568 | 4,644 |
| Municipal bonds | 1,540,701 | 25,591 | 28,860 | 1,537,432 | – |
| Non-U.S. governments | 74,990 | 1,859 | 543 | 76,306 | – |
| Total fixed maturity available-for-sale securities | $2,889,502 | $60,399 | $84,074 | $2,865,827 | $20,481 |

(1) 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 March 31, 2011 and December 31, 2010.

Our available-for-sale securities are U.S. dollar denominated securities. U.S. Government agencies consist of securities issued by financial institutions under the Temporary Liquidity Guarantee Program guaranteed by the Federal Deposit Insurance Corporation. Non-U.S. governments consist primarily of securities issued by governments and financial institutions that are explicitly guaranteed by the respective government.

Trading Securities

The following table sets forth the fair value of our fixed maturity trading securities as of March 31, 2011 and December 31, 2010 ($ in thousands):

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| Non-U.S. dollar denominated securities: | | |
| Non-U.S. governments | $ 142,043 | $ 140,089 |
| U.S. Government agencies | 16,220 | 15,903 |
| Corporate bonds | 71 | 68 |
| Insurance-linked securities | 19,919 | 26,086 |
| Total fixed maturity trading securities | $ 178,253 | $ 182,146 |

We have elected to record our investments in insurance-linked securities at fair value. Insurance-linked securities have exposure to catastrophe loss, which we actively manage. We believe that the various risk elements of insurance-linked securities are more appropriately accounted for in accordance with the fair value measurement attributes of FASB Accounting Standards Codification ("ASC") 825, "Financial Instruments" ("ASC 825"). The mark-to-market adjustments on securities recognized under ASC 825 contributed $1.2 million of net realized losses on investments for the three months ended March 31, 2011 and $0.8 million of net realized gains on investments for the three months ended March 31, 2010.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2011 and 2010

At acquisition we determine our trading intent in the near term for 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 three months ended March 31, 2011, there were proceeds from sales of $5.2 million and no purchases of trading securities accounted for in accordance with ASC 825 and included in investing activities of the statements of cash flows. For the three months ended March 31, 2010, there were no purchases or sales of trading securities accounted for in accordance with ASC 825.

Other-Than-Temporary Impairments

We consider the creditworthiness of our corporate bond portfolio by reviewing various performance metrics of the issuer, including financial condition and credit ratings as well as other public information. We determined that none of our corporate bonds were other-than-temporarily impaired for the three months ended March 31, 2011 and 2010. As of March 31, 2011, the single largest unrealized loss within our corporate bond portfolio was $0.4 million related to a security with an amortized cost of $10.1 million.

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 March 31, 2011 and net impairment losses of $7.7 million for the three months ended March 31, 2010. As of March 31, 2011, the single largest unrealized loss within our CMBS portfolio was $0.4 million related to a security with an amortized cost of $4.8 million.

Our residential mortgage-backed securities (“RMBS”) include U.S. Government agency RMBS and non-agency RMBS. Our 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 $0.9 million and $1.0 million for the three months ended March 31, 2011 and 2010, respectively. As of March 31, 2011, the single largest unrealized loss within our RMBS portfolio was $5.2 million related to a non-agency RMBS security with an amortized cost of $6.4 million.

We also recorded net impairment losses related to sub-prime ABS of $0.6 million and $9.4 million for the three months ended March 31, 2011 and 2010, respectively. As of March 31, 2011, the single largest unrealized loss within our sub-prime ABS portfolio was $2.1 million related to a security with an amortized cost of $6.8 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 March 31, 2011 and 2010 ($ in thousands):

| | 2011 | 2010 |
|---|---|---|
| Beginning balance, January 1 | $48,845 | $ 18,695 |
| Credit losses on securities not previously impaired | – | 6,675 |
| Additional credit losses on securities previously impaired | 1,507 | 11,427 |
| Reduction for paydowns and securities sold | (2,115) | – |
| Reduction for increases in cash flows expected to be collected | (99) | (245) |
| Ending balance, March 31 | $48,138 | $ 36,552 |

As of March 31, 2011, the total cumulative credit losses related to CMBS, non-agency RMBS and sub-prime ABS. The cumulative credit losses we recorded on CMBS of $5.2 million were on four securities issued from 2006 to 2007. As of March 31, 2011, 6.0% of the mortgage pools backing these securities were 90 days or more past due and 0.1% of the mortgage pools had incurred cumulative losses. For these securities, the expected losses for the underlying mortgage pools were greater than the remaining credit support of 18.1%. The cumulative credit losses we recorded on non-agency RMBS and sub-prime ABS of $42.9 million were on twenty-five securities issued from 2004 to 2007. As of March 31, 2011, 22.2% of the mortgage pools backing these securities were 90 days or more past due and 5.5% of the mortgage pools had incurred cumulative losses. For these securities, the expected losses for the underlying mortgage pools were greater than the remaining credit support of 11.1%.

Unrealized Gains and Losses

The following table sets forth the net changes in unrealized gains and losses on our available-for-sale securities for the three months ended March 31, 2011 and 2010 ($ in thousands):

| | 2011 | 2010 |
|---|---|---|
| Gross change in unrealized gains and losses | $12,568 | $55,728 |
| Less: deferred tax | (564) | (7,856) |
| Net change in unrealized gains and losses | $12,004 | $47,872 |

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2011 and 2010

The following table sets forth our gross unrealized losses on fixed maturity securities classified as available-for-sale aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2011 and December 31, 2010 ($ in thousands):

| | March 31, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Less than twelve months: | | | | |
| U.S. Government | $281,316 | $20,604 | $388,087 | $17,807 |
| Corporate bonds | 40,645 | 1,087 | 37,334 | 1,059 |
| Commercial mortgage-backed securities | 9,746 | 281 | – | – |
| Residential mortgage-backed securities | 24,117 | 166 | 17,103 | 431 |
| Asset-backed securities | – | – | – | – |
| Municipal bonds | 603,745 | 22,791 | 670,592 | 28,773 |
| Non-U.S. governments | 9,471 | 527 | 4,455 | 543 |
| Total | $969,040 | $45,456 | $1,117,571 | $48,613 |
| Twelve months or more: | | | | |
| U.S. Government | $– | $– | $– | $– |
| Corporate bonds | 6,330 | 57 | – | – |
| Commercial mortgage-backed securities | 7,006 | 700 | 22,016 | 1,393 |
| Residential mortgage-backed securities | 57,489 | 26,016 | 56,297 | 29,057 |
| Asset-backed securities | 21,956 | 3,368 | 21,816 | 4,924 |
| Municipal bonds | 2,007 | 108 | 2,032 | 87 |
| Non-U.S. governments | – | – | – | – |
| Total | $94,788 | $30,249 | $102,161 | $35,461 |
| Total unrealized losses: | | | | |
| U.S. Government | $281,316 | $20,604 | $388,087 | $17,807 |
| Corporate bonds | 46,975 | 1,144 | 37,334 | 1,059 |
| Commercial mortgage-backed securities | 16,752 | 981 | 22,016 | 1,393 |
| Residential mortgage-backed securities | 81,606 | 26,182 | 73,400 | 29,488 |
| Asset-backed securities | 21,956 | 3,368 | 21,816 | 4,924 |
| Municipal bonds | 605,752 | 22,899 | 672,624 | 28,860 |
| Non-U.S. governments | 9,471 | 527 | 4,455 | 543 |
| Total | $1,063,828 | $75,705 | $1,219,732 | $84,074 |

The fair values of fixed maturity available-for-sale securities included in the table above relate only to securities in an unrealized loss position as of the reporting date.

We believe that the gross unrealized losses in our available-for-sale 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.

Net Investment Income

The following table sets forth our net investment income for the three months ended March 31, 2011 and 2010 ($ in thousands):

| | 2011 | 2010 |
|---|---|---|
| Fixed maturity securities | $31,851 | $38,064 |
| Short-term investments and cash and cash equivalents | 1,506 | 206 |
| Funds held by ceding companies | 218 | 453 |
| Subtotal | 33,575 | 38,723 |
| Less: investment expenses | 1,197 | 1,218 |
| Net investment income | $32,378 | $37,505 |

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2011 and 2010

Net Realized Gains on Investments

The following table sets forth our net realized gains on investments for the three months ended March 31, 2011 and 2010 ($ in thousands):

| | 2011 | 2010 |
|---|---|---|
| Gross realized gains on the sale of investments | $3,944 | $4,713 |
| Gross realized losses on the sale of investments | (3) | (2) |
| Net realized gains on the sale of investments | 3,941 | 4,711 |
| Mark-to-market adjustments on fixed maturity trading securities | (3,534) | 746 |
| Net realized gains on investments | $407 | $5,457 |

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 March 31, 2011 ($ in thousands):

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $105,720 | $106,563 |
| Due from one to five years | 724,286 | 743,047 |
| Due from five to ten years | 887,736 | 881,675 |
| Due in ten or more years | 884,779 | 880,327 |
| Mortgage-backed and asset-backed securities | 382,739 | 366,769 |
| Total | $2,985,260 | $2,978,381 |

## 3. Fair Value Measurements

The fair values of our financial assets and liabilities 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 of financial assets and liabilities are based on prices obtained from independent pricing vendors, index providers, or broker-dealers using observable inputs; 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.

The following table presents the fair value measurement levels for all financial assets and liabilities which the Company has recorded at fair value as of March 31, 2011 and December 31, 2010 ($ in thousands):

| | | Fair Value Measurement Using: | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| March 31, 2011: | | | | |
| Financial assets: | | | | |
| Investments: | | | | |
| U.S. Government | $390,179 | $390,179 | $– | $– |
| U.S. Government agencies | 116,707 | – | 116,707 | – |
| Corporate bonds | 335,661 | – | 335,661 | – |
| Commercial mortgage-backed securities | 203,345 | – | 203,345 | – |
| Residential mortgage-backed securities | 139,069 | – | 135,764 | 3,305 |
| Asset-backed securities | 24,355 | – | 23,446 | 909 |
| Municipal bonds | 1,545,984 | – | 1,545,984 | – |
| Non-U.S. governments | 203,162 | 58,120 | 145,042 | – |
| Insurance-linked securities | 19,919 | – | 19,919 | – |
| Short-term investments | 97,153 | – | 97,153 | – |
| Total investments | 3,075,534 | 448,299 | 2,623,021 | 4,214 |
| Derivative instrument | 1,257 | – | – | 1,257 |
| Total | $3,076,791 | $448,299 | $2,623,021 | $5,471 |

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2011 and 2010

| | | Fair Value Measurement Using: | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| December 31, 2010: | | | | |
| Financial assets: | | | | |
| Investments: | | | | |
| U.S. Government | $391,303 | $391,303 | $– | $– |
| U.S. Government agencies | 116,450 | – | 116,450 | – |
| Corporate bonds | 366,968 | – | 366,968 | – |
| Commercial mortgage-backed securities | 203,313 | – | 203,313 | – |
| Residential mortgage-backed securities | 166,458 | – | 164,009 | 2,449 |
| Asset-backed securities | 23,568 | – | 22,499 | 1,069 |
| Municipal bonds | 1,537,432 | – | 1,537,432 | – |
| Non-U.S. governments | 216,395 | 57,643 | 158,752 | – |
| Insurance-linked securities | 26,086 | – | 26,086 | – |
| Short-term investments | 176,648 | – | 176,648 | – |
| Total | $3,224,621 | $448,946 | $2,772,157 | $3,518 |
| | | | | |
| Financial liabilities: | | | | |
| Derivative instrument | 4,871 | – | – | 4,871 |
| Total | $4,871 | $– | $– | $4,871 |

Our financial assets and liabilities recorded at fair value include fixed maturity securities, short-term investments and a derivative instrument. The fair values of our fixed maturity securities and short-term investments are generally based on prices obtained from independent pricing vendors, index providers, or broker-dealers using observable inputs. Fixed maturity securities are generally valued using the market approach. The inputs used to determine the fair value of our financial assets and liabilities are as follows:

| | |
|---|---|
| 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. |
| 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. |

| | |
|---|---|
| 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. |
| 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 a non-U.S. government. 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. |

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2011 and 2010

| | |
|---|---|
| Insurance-linked securities | The fair values of insurance-linked securities 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 specific catastrophic events. The fair value measurements were classified as Level 2. |
| Short-term investments | Short-term investments were generally carried at amortized cost, which approximates fair value, and were classified as Level 2. |
| Derivative instrument | The fair value of our derivative instrument was determined by management primarily using 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. The valuation was based on the use of significant unobservable inputs and therefore the fair value measurement was classified as Level 3. See Note 4 for additional disclosure on our derivative instrument. |

The following table reconciles the beginning and ending balance for our Level 3 financial assets and liabilities measured at fair value using significant unobservable inputs for the three months ended March 31, 2011 and 2010 ($ in thousands):

| | 2011 | 2010 |
|---|---|---|
| Beginning balance, January 1 | $(1,353) | $(4,677) |
| Purchases | – | – |
| Issuances | – | – |
| Settlements | 2,402 | 2,190 |
| Sales, maturities and paydowns | (76) | – |
| Total net realized gains included in earnings | – | – |
| Total increase (decrease) in fair value of the derivative instrument included in earnings | 3,726 | (2,315) |
| Total net unrealized gains (losses) included in comprehensive income | 772 | – |
| Transfers in and/or out of Level 3 | – | – |
| Ending balance, March 31 | $5,471 | $(4,802) |
| | | |
| Total increase (decrease) in fair value of the financial assets and liabilities included in earnings for the period | $3,726 | $(2,315) |

There were no transfers between Levels 1, 2 or 3 during the three months ended March 31, 2011 and 2010.

The carrying amounts of our financial assets and liabilities were equal to fair values at March 31, 2011 and December 31, 2010, except for the debt obligations on our consolidated balance sheets. The debt obligations were

recorded at cost with a carrying value of $250.0 million at March 31, 2011 and December 31, 2010, and had a fair value of $264.8 million and $260.9 million at March 31, 2011 and December 31, 2010, respectively.

## 4. Derivative Instrument

In August 2008, we entered into a derivative agreement with Topiary Capital Limited (“Topiary”), a Cayman Islands special purpose vehicle, that provides us with the ability to recover up to $200.0 million if two catastrophic events involving U.S. wind, U.S. earthquake, European wind or Japanese earthquake occur that meet specified loss criteria during any of three annual periods commencing August 1, 2008. Any recovery we make under this contract is based on insured property industry loss estimates for U.S. perils and European wind and a parametric index for Japanese earthquake events. Recovery is based on both a physical and financial variable and is not based on actual losses we may incur. Consequently, the transaction is accounted for as a derivative and is carried at the estimated fair value.

During the three months ended March 31, 2011, Japan’s Tohoku earthquake qualified as a first event under this agreement and resulted in an increase in the fair value of the derivative instrument due to the increased probability of a recovery. A recovery would be made only if a second qualifying catastrophic event occurred by July 31, 2011. Under the terms of the agreement, we pay Topiary approximately $9.7 million during each of the three annual periods. The net derivative asset of $1.3 million at March 31, 2011 and the net derivative liability of $4.9 million at December 31, 2010 were included in other assets and other liabilities, respectively, on our consolidated balance sheets. The increase in fair value of $3.7 million for the three months ended March 31, 2011 and decrease in fair value of $2.3 million for the three months ended March 31, 2010 were included in the net changes in fair value of derivatives on our consolidated statements of operations.

Topiary’s limit of loss is collateralized with high quality investment grade securities held in an account for the benefit of the Company. The performance of the securities in the collateral account is guaranteed under a total return swap agreement with Goldman Sachs International whose obligations under the swap agreement are guaranteed by Goldman Sachs Group, Inc.

Topiary is a variable interest entity under U.S. GAAP. We have concluded that we are not the primary beneficiary of Topiary and, accordingly, we have not consolidated this entity in our consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2011 and 2010

## 5. Income Taxes

We provide for income tax expense or benefit based upon income reported in the consolidated financial statements and the provisions of currently enacted tax laws. Platinum Holdings and Platinum Bermuda are incorporated under the laws of Bermuda and are subject to Bermuda law with respect to taxation. Under current Bermuda law, they are not taxed on any Bermuda income or capital gains and they have received an assurance from the Bermuda Minister of Finance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to Platinum Holdings or Platinum Bermuda or any of their respective operations, shares, debentures or other obligations until March 28, 2016. Platinum Holdings also has subsidiaries based in the United States, the United Kingdom and Ireland that are subject to the tax laws thereof.

The 2003 income tax return of our U.S.-based subsidiaries is currently under examination by the U.S. Internal Revenue Service. The income tax returns that remain open to examination are for calendar years 2006 and forward.

## 6. Share Repurchases and Option Purchases

Our Board of Directors has authorized the repurchase of our common shares through a share repurchase program. Since the program was established, our Board of Directors has approved increases in the repurchase program from time to time, most recently on February 16, 2011 to result in authority as of such date to repurchase up to a total of $250.0 million of our common shares.

During the three months ended March 31, 2011, in accordance with the share repurchase program, we repurchased 762,000 of our common shares in the open market for an aggregate amount of $33.9 million at a weighted average cost including commissions of $44.50 per share. The shares we repurchased were canceled. In January, 2011, the Company purchased, for an aggregate of $47.9 million in cash, the common share options issued to RenaissanceRe Holdings Ltd. ("RenaissanceRe") in connection with the Company's initial public offering in 2002. The options provided RenaissanceRe with the right to purchase 2,500,000 common shares from the Company for $27.00 per share and were subsequently amended to provide for net share settlements. The options were purchased under the Company's share repurchase program and were canceled. As of March 31, 2011, the remaining amount available under the repurchase program was $237.4 million.

## 7. Earnings (Loss) per Common Share

The following is a reconciliation of the basic and diluted earnings (loss) per common share computations for the three months ended March 31, 2011 and 2010 ($ and amounts in thousands, except per share data):

| | 2011 | 2010 |
|---|---|---|
| Earnings: | | |
| Basic and Diluted | | |
| Net income (loss) available to common shareholders | $ (157,192 ) | $ 15,421 |
| Net income (loss) allocated to participating common shareholders (1) | (932 ) | – |
| Net income (loss) allocated to common shareholders | $ (156,260 ) | $ 15,421 |

| | | |
|---|---|---|
| Common Shares: | | |
| Basic | | |
| Weighted average common shares outstanding | 37,199 | 45,431 |
| | | |
| Diluted | | |
| Weighted average common shares outstanding | 37,199 | 45,431 |
| Effect of dilutive securities: | | |
| Common share options | 438 | 2,540 |
| Restricted share units | 385 | 523 |
| Adjusted weighted average common shares outstanding | 38,022 | 48,494 |
| | | |
| Earnings (Loss) Per Common Share: | | |
| Basic earnings (loss) per common share | $ (4.20 ) | $ 0.34 |
| | | |
| Diluted earnings (loss) per common share (2) | $ (4.20 ) | $ 0.32 |

(1) Represents earnings attributable to holders of unvested restricted shares issued under the Company's share incentive plans that are considered to be participating securities.

(2) During a period of loss, the basic weighted average common shares outstanding is used in the denominator of the diluted loss per common share computation as the effect of including potential dilutive shares would be anti-dilutive.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2011 and 2010

## 8. Operating Segment Information

We have organized our worldwide reinsurance business into the following three operating segments: Property and Marine, Casualty and Finite Risk. The Property and Marine segment includes principally property and marine reinsurance coverages that are written in the United States and international markets. This operating segment includes property reinsurance, crop reinsurance and marine and aviation reinsurance. The Property and Marine segment includes reinsurance contracts that are either catastrophe excess-of-loss, per-risk excess-of-loss or proportional contracts. The Casualty segment includes reinsurance contracts that cover general and product liability, professional liability, accident and health, umbrella liability, workers' compensation, casualty clash, automobile liability, surety, trade credit, and political risk. We generally seek to write casualty reinsurance on an excess-of-loss basis. We write first dollar proportional casualty reinsurance contracts on an opportunistic basis. The Finite Risk operating segment includes principally structured reinsurance contracts with ceding companies whose needs may not be met efficiently through traditional reinsurance products. In exchange for contractual features that limit our risk, reinsurance contracts that we include in our Finite Risk segment typically provide the potential for significant profit commission to the ceding company. The classes of risks underwritten through our finite risk contracts are generally consistent with the classes covered by our traditional products. The finite risk reinsurance contracts that we underwrite generally provide prospective protection, meaning coverage is provided for losses that are incurred after inception of the contract, as contrasted with retrospective coverage, which covers losses that are incurred prior to inception of the contract. The three main categories of finite risk contracts are quota share, multi-year excess-of-loss and whole account aggregate stop loss.

In managing our operating segments, we use measures such as net underwriting income and underwriting ratios to evaluate segment performance. We do not allocate assets or certain income and expenses such as net investment income, net realized gains on investments, net impairment losses on investments, net changes in fair value of derivatives, net foreign currency exchange gains and losses, interest expense and certain corporate expenses by segment. The measures we use in evaluating our operating segments should not be used as a substitute for measures determined under U.S. GAAP. The following table summarizes underwriting activity and ratios for the three operating segments, together with a reconciliation of underwriting income (loss) to income (loss) before income taxes for the three months ended March 31, 2011 and 2010 ($ in thousands):

| | Three Months Ended March 31, 2011 | | | |
|---|---|---|---|---|
| | Property and Marine | Casualty | Finite Risk | Total |
| Net premiums written | $111,802 | $80,519 | $2,464 | $194,785 |
| Net premiums earned | 97,905 | 80,824 | 4,152 | 182,881 |
| Net losses and loss adjustment expenses | 278,330 | 39,619 | 1,646 | 319,595 |
| Net acquisition expenses | 13,626 | 18,563 | 1,761 | 33,950 |
| Other underwriting expenses | 7,321 | 5,332 | 235 | 12,888 |
| Segment underwriting income (loss) | $(201,372) | $17,310 | $510 | (183,552) |
| Net investment income | | | | 32,378 |
| Net realized gains on investments | | | | 407 |
| Net impairment losses on investments | | | | (1,507) |

| | | | | |
|---|---|---|---|---|
| Other income | | | | 1,096 |
| Net changes in fair value of derivatives | | | | 3,726 |
| Corporate expenses not allocated to segments | | | | (4,263) |
| Net foreign currency exchange (losses) gains | | | | (189) |
| Interest expense | | | | (4,766) |
| Income (loss) before income taxes | | | | $(156,670) |
| | | | | |
| Underwriting ratios: | | | | |
| Net loss and loss adjustment expense | 284.3 % | 49.0 % | 39.6 % | 174.8 % |
| Net acquisition expense | 13.9 % | 23.0 % | 42.4 % | 18.6 % |
| Other underwriting expense | 7.5 % | 6.6 % | 5.7 % | 7.0 % |
| Combined | 305.7 % | 78.6 % | 87.7 % | 200.4 % |

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2011 and 2010

| | Three Months Ended March 31, 2010 | | | |
|---|---|---|---|---|
| | Property and Marine | Casualty | Finite Risk | Total |
| Net premiums written | $146,785 | $93,751 | $6,891 | $247,427 |
| Net premiums earned | 127,806 | 87,902 | 4,470 | 220,178 |
| Net losses and loss adjustment expenses | 126,627 | 31,530 | 6,411 | 164,568 |
| Net acquisition expenses | 16,231 | 17,727 | 3,371 | 37,329 |
| Other underwriting expenses | 8,699 | 6,470 | 338 | 15,507 |
| Segment underwriting income (loss) | $(23,751) | $32,175 | $(5,650) | 2,774 |
| Net investment income | | | | 37,505 |
| Net realized gains on investments | | | | 5,457 |
| Net impairment losses on investments | | | | (18,102) |
| Other income | | | | 273 |
| Net changes in fair value of derivatives | | | | (2,315) |
| Corporate expenses not allocated to segments | | | | (6,234) |
| Net foreign currency exchange (losses) gains | | | | 1,229 |
| Interest expense | | | | (4,760) |
| Income before income taxes | | | | $15,827 |
| Underwriting ratios: | | | | |
| Net loss and loss adjustment expense | 99.1% | 35.9% | 143.4% | 74.7% |
| Net acquisition expense | 12.7% | 20.2% | 75.4% | 17.0% |
| Other underwriting expense | 6.8% | 7.4% | 7.6% | 7.0% |
| Combined | 118.6% | 63.5% | 226.4% | 98.7% |

9. Statutory Regulations and Dividend Capacity

The laws and regulations of Bermuda and the United States include certain restrictions on the amount of dividends or other distributions that can be paid by Platinum Bermuda and Platinum US to their respective parent companies, Platinum Holdings and Platinum Finance, without the prior approval of the relevant regulatory authorities. Based on the regulatory restrictions, the maximum amount available for payment of dividends or other distributions by our reinsurance subsidiaries during 2011 without prior regulatory approval is as follows ($ in thousands):

| | |
|---|---|
| Platinum Bermuda | $ 341,541 |
| Platinum US | 64,282 |
| Total | $ 405,823 |

Platinum Bermuda made dividend payments of $180.0 million to Platinum Holdings during the three months ended March 31, 2011. Platinum US paid no dividends to Platinum Finance during the three months ended March 31, 2011. As of March 31, 2011, the remaining amount available for payment of dividends or other distributions by our reinsurance subsidiaries without regulatory approval was $225.8 million.

During the three months ended March 31, 2011, Platinum US repaid a $100.0 million surplus note to Platinum Regency, the parent company of Platinum Finance. Platinum Regency subsequently paid dividends of $100.0 million to Platinum Holdings.

## 10. Condensed Consolidating Financial Information

Platinum Holdings fully and unconditionally guarantees the $250.0 million Series B Notes issued by Platinum Finance. The following tables present the condensed consolidating financial information for Platinum Holdings, Platinum Finance and the non-guarantor subsidiaries of Platinum Holdings as of March 31, 2011 and December 31, 2010 and for the three months ended March 31, 2011 and 2010 ($ in thousands):

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
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| Condensed Consolidating Balance Sheet March 31, 2011 | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Total investments | $– | $361 | $ 3,075,173 | $ – | $ 3,075,534 |
| Investment in subsidiaries | 1,610,198 | 610,171 | 441,695 | (2,662,064 ) | – |
| Cash and cash equivalents | 46,799 | 82,505 | 935,427 | – | 1,064,731 |
| Reinsurance assets | – | – | 372,282 | – | 372,282 |
| Other assets | 10,470 | 4,610 | 90,940 | (1,793 ) | 104,227 |
| Total assets | $1,667,467 | $697,647 | $ 4,915,517 | $ (2,663,857 ) | $ 4,616,774 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Liabilities | | | | | |
| Reinsurance liabilities | $– | $– | $ 2,660,809 | $ – | $ 2,660,809 |
| Debt obligations | – | 250,000 | – | – | 250,000 |
| Other liabilities | 2,294 | 6,288 | 34,003 | (1,793 ) | 40,792 |
| Total liabilities | $2,294 | $256,288 | $ 2,694,812 | $ (1,793 ) | $ 2,951,601 |
| Shareholders' Equity | | | | | |
| Common shares | $373 | $– | $ 8,000 | $ (8,000 ) | $ 373 |
| Additional paid-in capital | 371,493 | 213,326 | 1,997,301 | (2,210,627 ) | 371,493 |
| Accumulated other comprehensive income (loss) | (12,484 ) | 2,558 | (9,940 ) | 7,382 | (12,484 ) |
| Retained earnings | 1,305,791 | 225,475 | 225,344 | (450,819 ) | 1,305,791 |
| Total shareholders' equity | $1,665,173 | $441,359 | $ 2,220,705 | $ (2,662,064 ) | $ 1,665,173 |
| Total liabilities and shareholders' equity | $1,667,467 | $697,647 | $ 4,915,517 | $ (2,663,857 ) | $ 4,616,774 |

| Condensed Consolidating Balance Sheet December 31, 2010 | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Total investments | $– | $394 | $ 3,224,227 | $ – | $ 3,224,621 |
| Investment in subsidiaries | 1,910,617 | 599,965 | 434,539 | (2,945,121 ) | – |
| Cash and cash equivalents | 45,035 | 7,347 | 935,495 | – | 987,877 |
| Reinsurance assets | – | – | 301,778 | – | 301,778 |
| Inter-company loans (1) | – | 75,000 | – | (75,000 ) | – |
| Other assets | 17,337 | 3,111 | 80,096 | (507 ) | 100,037 |
| Total assets | $1,972,989 | $685,817 | $ 4,976,135 | $ (3,020,628 ) | $ 4,614,313 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Liabilities | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Reinsurance liabilities | $– | $– | $ 2,431,741 | $ – | $ 2,431,741 |
| Debt obligations | – | 250,000 | – | – | 250,000 |
| Inter-company loans (1) | 75,000 | – | – | (75,000 ) | – |
| Other liabilities | 2,534 | 1,592 | 33,498 | (507 ) | 37,117 |
| Total liabilities | $77,534 | $251,592 | $ 2,465,239 | $ (75,507 ) | $ 2,718,858 |
| | | | | | |
| Shareholders' Equity | | | | | |
| Common shares | $377 | $– | $ 8,000 | $ (8,000 ) | $ 377 |
| Additional paid-in capital | 453,619 | 212,956 | 1,876,561 | (2,089,517 ) | 453,619 |
| Accumulated other comprehensive income (loss) | (24,488 ) | 1,509 | (22,991 ) | 21,482 | (24,488 ) |
| Retained earnings | 1,465,947 | 219,760 | 649,326 | (869,086 ) | 1,465,947 |
| Total shareholders' equity | $1,895,455 | $434,225 | $ 2,510,896 | $ (2,945,121 ) | $ 1,895,455 |
| | | | | | |
| Total liabilities and shareholders' equity | $1,972,989 | $685,817 | $ 4,976,135 | $ (3,020,628 ) | $ 4,614,313 |

(1) During 2010, Platinum Finance provided loans to Platinum Holdings of $75.0 million, due February 1, 2011. These loans were repaid on February 1, 2011.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2011 and 2010

| Condensed Consolidating Statement of Operations For the Three Months Ended March 31, 2011 | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Revenue: | | | | | |
| Net premiums earned | $– | $– | $ 182,881 | $ – | $ 182,881 |
| Net investment income | 2 | 53 | 32,376 | (53) | 32,378 |
| Net realized gains on investments | – | – | 407 | – | 407 |
| Net impairment losses on investments | – | – | (1,507) | – | (1,507) |
| Other income (expense) | (725) | 115 | 1,706 | – | 1,096 |
| Total revenue | (723) | 168 | 215,863 | (53) | 215,255 |
| Expenses: | | | | | |
| Net losses and loss adjustment expenses | – | – | 319,595 | – | 319,595 |
| Net acquisition expenses | – | – | 33,950 | – | 33,950 |
| Net changes in fair value of derivatives | – | – | (3,726) | – | (3,726) |
| Operating expenses | 4,223 | 59 | 12,869 | – | 17,151 |
| Net foreign currency exchange losses (gains) | – | – | 189 | – | 189 |
| Interest expense | 53 | 4,766 | – | (53) | 4,766 |
| Total expenses | 4,276 | 4,825 | 362,877 | (53) | 371,925 |
| Income (loss) before income taxes | (4,999) | (4,657) | (147,014) | – | (156,670) |
| Income tax expense (benefit) | (600) | (1,584) | 2,706 | – | 522 |
| Income (loss) before equity in earnings of subsidiaries | (4,399) | (3,073) | (149,720) | – | (157,192) |
| Equity in earnings of subsidiaries | (152,793) | 8,787 | 5,739 | 138,267 | – |
| Net income (loss) | $(157,192) | $5,714 | $ (143,981) | $ 138,267 | $ (157,192) |

| Condensed Consolidating Statement of Operations For the Three Months Ended March 31, 2010 | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Revenue: | | | | | |
| Net premiums earned | $– | $– | $ 220,178 | $ – | $ 220,178 |
| Net investment income | 10 | 46 | 37,449 | – | 37,505 |
| Net realized gains on investments | – | – | 5,457 | – | 5,457 |
| Net impairment losses on investments | – | – | (18,102) | – | (18,102) |
| Other income (expense) | 444 | – | (171) | – | 273 |
| Total revenue | 454 | 46 | 244,811 | – | 245,311 |

| | | | | | |
|---|---|---|---|---|---|
| Expenses: | | | | | |
| Net losses and loss adjustment expenses | – | – | 164,568 | – | 164,568 |
| Net acquisition expenses | – | – | 37,329 | – | 37,329 |
| Net changes in fair value of derivatives | – | – | 2,315 | – | 2,315 |
| Operating expenses | 6,273 | 69 | 15,399 | – | 21,741 |
| Net foreign currency exchange losses (gains) | – | – | (1,233) | 4 | (1,229) |
| Interest expense | – | 4,760 | – | – | 4,760 |
| Total expenses | 6,273 | 4,829 | 218,378 | 4 | 229,484 |
| | | | | | |
| Income (loss) before income taxes | (5,819) | (4,783) | 26,433 | (4) | 15,827 |
| Income tax expense (benefit) | – | (1,540) | 1,946 | – | 406 |
| | | | | | |
| Income (loss) before equity in earnings of subsidiaries | (5,819) | (3,243) | 24,487 | (4) | 15,421 |
| Equity in earnings of subsidiaries | 21,240 | 14,584 | 11,072 | (46,896) | – |
| | | | | | |
| Net income | $ 15,421 | $ 11,341 | $ 35,559 | $ (46,900) | $ 15,421 |

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2011 and 2010

| Condensed Consolidating Statement of Cash Flows For the Three Months Ended March 31, 2011 | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities | $810 | $125 | $ (6,163) | $ – | $ (5,228) |
| Investing Activities: | | | | | |
| Proceeds from sale of fixed maturity available-for-sale securities | – | – | 60,524 | – | 60,524 |
| Proceeds from sale of fixed maturity trading securities | – | – | 5,225 | – | 5,225 |
| Proceeds from sale of short-term investments | – | – | 25,995 | – | 25,995 |
| Proceeds from maturity or paydown of fixed maturity available-for-sale securities | – | 33 | 47,868 | – | 47,901 |
| Proceeds from maturity of short-term investments | – | – | 63,700 | – | 63,700 |
| Acquisition of fixed maturity available-for-sale securities | – | – | (29,238) | – | (29,238) |
| Acquisition of short-term investments | – | – | (10,948) | – | (10,948) |
| Dividends from subsidiaries | 280,000 | – | – | (280,000) | – |
| Investment in subsidiary | (120,000) | – | – | 120,000 | – |
| Inter-company loans | – | 75,000 | 100,000 | (175,000) | – |
| Net cash provided by (used in) investing activities | 160,000 | 75,033 | 263,126 | (335,000) | 163,159 |
| Financing Activities: | | | | | |
| Dividends paid to common shareholders | (2,964) | – | (280,000) | 280,000 | (2,964) |
| Repurchase of common shares | (33,907) | – | – | – | (33,907) |
| Purchase of common share options | (47,900) | – | – | – | (47,900) |
| Proceeds from exercise of common share options | 725 | – | – | – | 725 |
| Capital contribution from parent | – | – | 120,000 | (120,000) | – |
| Inter-company loans | (75,000) | – | (100,000) | 175,000 | – |
| Net cash provided by (used in) financing activities | (159,046) | – | (260,000) | 335,000 | (84,046) |
| Effect of foreign currency exchange rate changes on cash | – | – | 2,969 | – | 2,969 |
| Net increase (decrease) in cash and cash equivalents | 1,764 | 75,158 | (68) | – | 76,854 |
| | 45,035 | 7,347 | 935,495 | – | 987,877 |

| | | | | | |
|---|---|---|---|---|---|
| Cash and cash equivalents at beginning of period | | | | | |
| Cash and cash equivalents at end of period | $46,799 | $82,505 | $ 935,427 | $ – | $ 1,064,731 |

| Condensed Consolidating Statement of Cash Flows For the Three Months Ended March 31, 2010 | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities | $(9,101) | $1,135 | $ 42,390 | $ – | $ 34,424 |
| Investing Activities: | | | | | |
| Proceeds from sale of fixed maturity available-for-sale securities | – | – | 280,339 | – | 280,339 |
| Proceeds from sale of short-term investments | – | – | 9,372 | – | 9,372 |
| Proceeds from maturity or paydown of fixed maturity available-for-sale securities | – | 41 | 87,411 | – | 87,452 |
| Proceeds from maturity of short-term investments | – | – | 1,300 | – | 1,300 |
| Acquisition of fixed maturity available-for-sale securities | – | – | (286,490) | – | (286,490) |
| Acquisition of short-term investments | – | – | (213,033) | – | (213,033) |
| Dividends from subsidiaries | 125,000 | – | – | (125,000) | – |
| Net cash provided by (used in) investing activities | 125,000 | 41 | (121,101) | (125,000) | (121,060) |
| Financing Activities: | | | | | |
| Dividends paid to common shareholders | (3,655) | – | (125,000) | 125,000 | (3,655) |
| Repurchase of common shares | (63,221) | – | – | – | (63,221) |
| Proceeds from exercise of common share options | 6,813 | – | – | – | 6,813 |
| Net cash provided by (used in) financing activities | (60,063) | – | (125,000) | 125,000 | (60,063) |
| Effect of foreign currency exchange rate changes on cash | – | – | (3,043) | – | (3,043) |
| Net increase (decrease) in cash and cash equivalents | 55,836 | 1,176 | (206,754) | – | (149,742) |
| Cash and cash equivalents at beginning of period | 49,449 | 7,655 | 625,680 | – | 682,784 |
| Cash and cash equivalents at end of period | $105,285 | $8,831 | $ 418,926 | $ – | $ 533,042 |

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes thereto included in this Quarterly Report on Form 10-Q for the period ended March 31, 2011 (this "Form 10-Q") and the consolidated financial statements and related notes thereto and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our Annual Report on Form 10-K for the year ended December 31, 2010 (the "2010 Form 10-K"). This Form 10-Q contains forward-looking statements that involve risks and uncertainties. Please see the "Note on Forward-Looking Statements" below. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

### Overview

Platinum Underwriters Holdings, Ltd. ("Platinum Holdings") is a holding company that is domiciled in Bermuda and was organized in 2002. We had approximately $1.9 billion in capital resources as of March 31, 2011. 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 Re (UK) Limited ("Platinum UK"), Platinum Underwriters Finance, Inc. ("Platinum Finance"), Platinum Regency Holdings ("Platinum Regency"), Platinum Administrative Services, Inc. and Platinum UK Services Company Limited. The terms "we," "us," and "our" also refer to the Company, unless the context otherwise indicates.

For the three months ended March 31, 2011, our Property and Marine, Casualty and Finite Risk operating segments accounted for approximately 58%, 41% and 1%, respectively, of our total net written premiums of $194.8 million. As of March 31, 2011, we had total investments and cash and cash equivalents of $4.1 billion and shareholders' equity of $1.7 billion.

### Current Outlook

With the accumulation of insured international natural catastrophe losses over the past 15 months in combination with the introduction of catastrophe modeling changes for the U.S. wind peril, we generally expect property catastrophe reinsurance rates to improve for the balance of the year. We do not believe that the market hardening will extend meaningfully to the non-catastrophe lines of business. Approximately half of our U.S. wind-exposed business and a quarter of our U.S. earthquake-exposed business will be underwritten during the balance of the year. We expect that property and marine business will continue to represent a large proportion of our overall book of business, which could result in significant volatility in our results of operations.

In the Casualty segment, we expect insurance and reinsurance capacity to remain abundant for the rest of 2011 putting downward pressure on risk adjusted rates. With intense competition, low interest rates, and positive loss cost trends, the expected profitability of many casualty treaties is eroding. We expect that select casualty reinsurance treaties will offer adequate returns, however the amount of business we write in our Casualty segment will likely decrease during 2011 compared with the amount we wrote in 2010.

We expect a relatively low level of demand for products in our Finite Risk segment for the remainder of 2011.

### Critical Accounting Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires us to make many estimates and valuation assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent liabilities. Actual results may differ materially from these estimates. Our critical accounting estimates include premiums written and earned, unpaid losses and 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. Updates to our critical accounting estimates are discussed below. For a detailed discussion of our other critical accounting estimates, please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our 2010 Form 10-K.

Reinsurance Recoverable

In order to limit the effect on our financial condition of large and multiple losses, we may buy retrocessional reinsurance, which is reinsurance for our own account. Reinsurance recoverable, also referred to as "ceded loss reserves," includes estimates of the recoveries from our retrocessional reinsurance that arise from claims from our reinsurance business. These assets are estimates of future amounts recoverable from retrocessionaires for claims that have occurred at or before the balance sheet date. Each quarter, after estimating the amount of unpaid losses and LAE, our actuaries review all retrocessional contracts. Based on the structure of each retrocessional contract and the gross incurred loss, a recovery amount is estimated.

Results of Operations

Three Months Ended March 31, 2011 as Compared with the Three Months Ended March 31, 2010

Net income (loss) and diluted earnings (loss) per common share for the three months ended March 31, 2011 and 2010 were as follows ($ and amounts in thousands, except diluted earnings (loss) per common share):

| | 2011 | 2010 | Net change |
|---|---|---|---|
| Underwriting income (loss) | $(183,552) | $2,774 | $(186,326) |
| Net investment income | 32,378 | 37,505 | (5,127) |
| Net realized gains on investments | 407 | 5,457 | (5,050) |
| Net impairment losses on investments | (1,507) | (18,102) | 16,595 |
| Other revenues (expenses) | (4,396) | (11,807) | 7,411 |
| Income (loss) before income taxes | (156,670) | 15,827 | (172,497) |
| Income tax expense | (522) | (406) | ( 116) |
| Net income (loss) | $(157,192) | $15,421 | $(172,613) |
| Weighted average shares outstanding for diluted earnings per common share | 38,022 | 48,494 | (10,472) |
| Diluted earnings (loss) per common share | $(4.20) | $0.32 | $(4.52) |

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The net loss for the three months ended March 31, 2011 as compared with net income for the same period in 2010 was primarily due to a decrease in net underwriting income attributable to an increase in major catastrophe activity. In addition, net investment income and net realized gains on investments decreased in the three months ended March 31, 2011 as compared to the same period in 2010, and were partially offset by a decrease in net impairment losses on investments.

The diluted loss per common share for the three months ended March 31, 2011 as compared with diluted earnings per common share for the three months ended March 31, 2010 was primarily due to an increase in losses arising from major catastrophes.

Underwriting Results

Underwriting income and loss consists of net premiums earned, less net losses and LAE, net acquisition expenses and operating costs related to underwriting operations.

Net underwriting loss was $183.6 million for the three months ended March 31, 2011 and net underwriting income was $2.8 million for the three months ended March 31, 2010. The change in net underwriting result was due to an increase in losses arising from major catastrophes and a reduction in net favorable development.

Net losses arising from major catastrophes were $248.1 million and $89.0 million for the three months ended March 31, 2011 and 2010, respectively. Net favorable development was $33.1 million and $49.5 million for the three months ended March 31, 2011 and 2010, respectively. Net favorable or unfavorable development is the development of prior years' unpaid losses and LAE and the related impact on premiums and commissions. The net favorable development for the three months ended March 31, 2011 relating to prior years was substantially all in the Property and Marine and Casualty segments.

We conduct our worldwide reinsurance business through three operating segments: Property and Marine, Casualty and Finite Risk. In managing our operating segments, we use measures such as underwriting income and underwriting ratios to evaluate segment performance. We do not allocate assets or certain income and expenses such as net investment income, net realized gains on investments, net impairment losses on investments, net changes in fair value of derivatives, net foreign currency exchange gains and losses, interest expense and certain corporate expenses to segments. Segment underwriting income is reconciled to the U.S. GAAP measure of income before income taxes in Note 8 to the "Consolidated Financial Statements" in this Form 10-Q. The measures we use in evaluating our operating segments should not be used as a substitute for measures determined under U.S. GAAP.

Property and Marine

The Property and Marine operating segment generated 57.4% and 59.3% of our net premiums written for the three months ended March 31, 2011 and 2010, respectively. The following table summarizes underwriting activity and ratios for the Property and Marine segment for the three months ended March 31, 2011 and 2010 ($ in thousands):

| | 2011 | 2010 | Increase (decrease) |
|---|---|---|---|
| Gross premiums written | $123,814 | $152,545 | $(28,731) |
| Ceded premiums written | 12,012 | 5,760 | 6,252 |
| Net premiums written | 111,802 | 146,785 | (34,983) |
| Net premiums earned | 97,905 | 127,806 | (29,901) |

| | | | |
|---|---|---|---|
| Net losses and LAE | 278,330 | 126,627 | 151,703 |
| Net acquisition expenses | 13,626 | 16,231 | (2,605) |
| Other underwriting expenses | 7,321 | 8,699 | (1,378) |
| Property and Marine segment underwriting loss | $(201,372) | $(23,751) | $(177,621) |
| | | | |
| Underwriting ratios: | | | |
| Net loss and LAE | 284.3 % | 99.1 % | 185.2 points |
| Net acquisition expense | 13.9 % | 12.7 % | 1.2 points |
| Other underwriting expense | 7.5 % | 6.8 % | 0.7 points |
| Combined | 305.7 % | 118.6 % | 187.1 points |

The Property and Marine segment underwriting loss increased by $177.6 million for the three months ended March 31, 2011 as compared with the three months ended March 31, 2010, primarily due to an increase in net losses arising from major catastrophes. Net losses arising from major catastrophes, net of reinstatement premiums and retrocessional recoveries, were $248.1 million and $89.0 million for the three months ended March 31, 2011 and 2010, respectively. Net losses from major catastrophes for the three months ended March 31, 2011 were attributable to earthquakes in New Zealand and Japan, the 2011 floods in Australia and Cyclone Yasi in Australia.

Gross premiums written decreased by $28.7 million for the three months ended March 31, 2011 as compared with the three months ended March 31, 2010. Gross premiums written included reinstatement premiums related to major catastrophes of $12.8 million and $14.3 million for the three months ended March 31, 2011 and 2010, respectively. The decrease in gross premiums written was primarily due to decreases in the North American property classes, including catastrophe excess-of-loss, crop and per risk excess-of-loss business for the three months ended March 31, 2011 as compared with the same period in 2010. The increase in ceded premiums written was the result of an increase in our purchases of retrocessional coverage on catastrophe business for the three months ended March 31, 2011 as compared with the same period in 2010. Net premiums earned decreased by $29.9 million for the three months ended March 31, 2011 as compared with the same period in 2010, primarily as a result of decreases in net premiums written in current and prior periods. Net premiums written and earned were also affected by changes in the mix of business and the structure of the underlying reinsurance contracts.

Net losses and LAE increased by $151.7 million for the three months ended March 31, 2011 as compared with the three months ended March 31, 2010, primarily due to an increase in losses arising from major catastrophes. Net losses and LAE arising from major catastrophes, net of retrocessional recoveries and excluding reinstatement premiums earned, were $259.4 million and $101.1 million for the three months ended March 31, 2011 and 2010, respectively. The following table sets forth the net losses and LAE by major catastrophe during the three months ended March 31, 2011:

| Major Catastrophes | Gross Losses and LAE | Retrocessional Recoveries | Net Losses and LAE | Reinstatement Premiums Earned | Net Losses from Major Catastrophes |
|---|---|---|---|---|---|
| 2011 New Zealand earthquake | $ (141,472 ) | $ – | $(141,472 ) | $ 4,558 | $ (136,914 ) |
| Japan earthquake | (126,206 ) | 35,000 | (91,206 ) | 4,644 | (86,562 ) |
| 2011 Australian floods | (15,604 ) | – | (15,604 ) | 753 | (14,851 ) |
| Cyclone Yasi | (11,109 ) | – | (11,109 ) | 1,383 | (9,726 ) |
| Total | $ (294,391 ) | $ 35,000 | $(259,391 ) | $ 11,338 | $ (248,053 ) |

For the three months ended March 31, 2010, net losses and LAE arising from major catastrophes of $101.1 million, excluding reinstatement premiums earned of $12.1 million, related to the earthquake in Chile and European Winterstorm Xynthia. Net losses and LAE arising from major catastrophes, with related premium adjustments, increased the net loss and LAE ratio by 262.4 points and 76.6 points for the three months ended March 31, 2011 and 2010, respectively.

Net favorable loss development was $12.2 million and $18.6 million for the three months ended March 31, 2011 and 2010, respectively. Net favorable loss development and related premium adjustments decreased the net loss and LAE ratio by 14.7 points and 15.3 points for the three months ended March 31, 2011 and 2010, respectively. Net favorable loss development for the three months ended March 31, 2011 and 2010 was primarily attributable to a level of cumulative losses reported by our ceding companies that was lower than expected and that, in our judgment, resulted in sufficient credibility in the loss experience to change our previously selected loss ratios.

The following table sets forth the net favorable (unfavorable) development for the three months ended March 31, 2011 by class of business ($ in thousands):

| Class of Business | Net Losses and LAE | Net Acquisition Expense | Net Premiums | Net Development |
|---|---|---|---|---|
| Property per risk excess-of-loss | $6,875 | $177 | $192 | $ 7,244 |
| Catastrophe excess-of-loss (non-major events) | (11,879 ) | (191 ) | (162 ) | (12,232 ) |
| Property proportional | 3,388 | (60 ) | – | 3,328 |
| Major catastrophes | 14,181 | (5 ) | (19 ) | 14,157 |
| Other property | (331 ) | (134 ) | 721 | 256 |
| Total | $12,234 | $(213 ) | $732 | $ 12,753 |

Net favorable development in the property per risk excess-of-loss class arose primarily from North American business from most prior underwriting years. Net unfavorable development in the catastrophe excess-of-loss (non-major events) class arose primarily from an increase in loss advices from ceding companies related to fourth quarter 2010 events in Europe and Australia. Net favorable development in the property proportional class arose primarily in the 2008 and 2009 underwriting years. Net favorable development in the major catastrophes class arose primarily from

the September 2010 earthquake in New Zealand and the December 2010 floods in Australia.

The following table sets forth the net favorable (unfavorable) development for the three months ended March 31, 2010 by class of business ($ in thousands):

| Class of Business | Net Losses and LAE | Net Acquisition Expense | Net Premiums | Net Development |
|---|---|---|---|---|
| Property per risk excess-of-loss | $9,355 | $(505) | $72 | $ 8,922 |
| Catastrophe excess-of-loss (non-major events) | 2,365 | (107) | 140 | 2,398 |
| Crop | 3,917 | – | – | 3,917 |
| Property proportional | 2,287 | (7) | – | 2,280 |
| Other property | 721 | (236) | 639 | 1,124 |
| Total | $18,645 | $(855) | $851 | $ 18,641 |

Net favorable development in the property per risk excess-of-loss class arose primarily from international and North American regional business from the 2009 underwriting year. Net favorable development in the catastrophe excess-of-loss (non-major events) class arose primarily from international business in the 2009 underwriting year. Net favorable development in the crop class arose primarily from our North American business in the 2009 underwriting year. Net favorable development in the property proportional class arose primarily from our North American business in the 2005 through 2008 underwriting years.

Net acquisition expenses and related net acquisition expense ratios were $13.6 million and 13.9% for the three months ended March 31, 2011 and $16.2 million and 12.7% for the three months ended March 31, 2010. The decrease in net acquisition expenses was primarily due to a decrease in net premiums earned. The resulting acquisition expense ratio increased due to a lower proportion of catastrophe business written, which had a lower acquisition expense ratio than the remainder of the segment, and other changes in the mix of business.

Other underwriting expenses were $7.3 million and $8.7 million for the three months ended March 31, 2011 and 2010, respectively. The decrease in 2011 as compared with 2010 was primarily attributable to a decrease in performance-based compensation in 2011.

Casualty

The Casualty operating segment generated 41.3% and 37.9% of our net premiums written for the three months ended March 31, 2011 and 2010, respectively. The following table summarizes underwriting activity and ratios for the Casualty segment for the three months ended March 31, 2011 and 2010 ($ in thousands):

| | 2011 | 2010 | Increase (decrease) |
|---|---|---|---|
| Net premiums written | $80,519 | $93,751 | $(13,232) |
| Net premiums earned | 80,824 | 87,902 | (7,078) |
| Net losses and LAE | 39,619 | 31,530 | 8,089 |
| Net acquisition expenses | 18,563 | 17,727 | 836 |
| Other underwriting expenses | 5,332 | 6,470 | (1,138) |
| Casualty segment underwriting income | $17,310 | $32,175 | $(14,865) |
| Underwriting ratios: | | | |
| Net loss and LAE | 49.0 % | 35.9 % | 13.1 points |
| Net acquisition expense | 23.0 % | 20.2 % | 2.8 points |
| Other underwriting expense | 6.6 % | 7.4 % | (0.8) points |
| Combined | 78.6 % | 63.5 % | 15.1 points |

The Casualty segment underwriting income decreased by $14.9 million for the three months ended March 31, 2011 as compared with the three months ended March 31, 2010, primarily due to a decrease in net favorable development. Net favorable development was $19.7 million and $36.6 million for the three months ended March 31, 2011 and 2010, respectively.

Net premiums written decreased by $13.2 million for the three months ended March 31, 2011 as compared with the three months ended March 31, 2010, primarily due to decreases in business underwritten in 2011 and 2010 across most casualty classes as a result of fewer opportunities that met our underwriting standards. Net premiums earned decreased by $7.1 million as a result of the decreases in net premiums written in current and prior periods. Net premiums written and earned were also affected by changes in the mix of business and the structure of the underlying reinsurance contracts.

Net losses and LAE increased by $8.1 million for the three months ended March 31, 2011 as compared with the three months ended March 31, 2010, primarily due to a decrease in net favorable loss development. Net favorable loss development was $19.6 million and $33.3 million for the three months ended March 31, 2011 and 2010, respectively. Net favorable loss development and related premium adjustments decreased the net loss and LAE ratios

by 23.8 points and 38.1 points for the three months ended March 31, 2011 and 2010, respectively. Net favorable loss development for the three months ended March 31, 2011 and 2010 was primarily attributable to a level of cumulative losses reported by our ceding companies that was lower than expected and that, in our judgment, resulted in sufficient credibility in the loss experience to change our previously selected loss ratios. The net loss and LAE ratios were also affected by changes in the mix of business.

The following table sets forth the net favorable (unfavorable) development for the three months ended March 31, 2011 by class of business ($ in thousands):

| Class of Business | Net Losses and LAE | Net Acquisition Expense | Net Premiums | Net Development |
|---|---|---|---|---|
| North American claims made | $14,087 | $(363) | $– | $ 13,724 |
| North American occurrence excess-of-loss | 2,571 | 194 | 96 | 2,861 |
| North American umbrella | 4,467 | (11) | – | 4,456 |
| Accident and health | (2,458) | 546 | – | (1,912) |
| Other | 888 | 210 | (505) | 593 |
| Total | $19,555 | $576 | $(409) | $ 19,722 |

Net favorable development in the North American claims made class arose primarily from the 2003 through 2006 underwriting years. Net favorable development in the North American occurrence excess-of-loss class arose primarily from the 2005 underwriting year. Net favorable development in the North American umbrella class arose primarily from the 2005, 2006 and 2008 underwriting years. Net unfavorable development in the accident and health class arose primarily from the 2004 through 2006 underwriting years.

The following table sets forth the net favorable (unfavorable) development for the three months ended March 31, 2010 by class of business ($ in thousands):

| Class of Business | Net Losses and LAE | Net Acquisition Expense | Net Premiums | Net Development |
|---|---|---|---|---|
| North American claims made | $11,032 | $2,267 | $– | $ 13,299 |
| North American occurrence excess-of-loss | 17,341 | (125) | 7 | 17,223 |
| North American umbrella | 3,449 | 1 | – | 3,450 |
| Financial lines | 1,820 | 82 | (40) | 1,862 |
| International casualty | (1,303) | (172) | 250 | (1,225) |
| Accident and health | 943 | 878 | – | 1,821 |
| Other | 60 | (13) | 77 | 124 |
| Total | $33,342 | $2,918 | $294 | $ 36,554 |

Net favorable development in the North American claims made class arose primarily from the 2003, 2005 and 2006 underwriting years. Net favorable development in the North American occurrence excess-of-loss class arose primarily from the 2002 through 2006 underwriting years. Net favorable development in the North American umbrella class arose primarily from the 2003 and 2004 underwriting years, partially offset by net unfavorable development on the 2008 underwriting year. Net favorable development in the financial lines class arose primarily from our North American surety business in the 2004 though 2007 underwriting years. Net unfavorable development in the international casualty class arose from the 2008 underwriting year primarily from financial institutions business, partially offset by net favorable development from the 2002 through 2006 underwriting years. Net favorable development in the accident and health class arose primarily from the 2007 and 2008 underwriting years.

Net acquisition expenses and related net acquisition expense ratios were $18.6 million and 23.0% for the three months ended March 31, 2011 and $17.7 million and 20.2% for the three months ended March 31, 2010. The increases in net acquisition expenses and the acquisition expense ratio were due to a decrease in net favorable development for the three months ended March 31, 2011 as compared to the same period in 2010. Net favorable development of commissions was $0.6 million and $2.9 million for the three months ended March 31, 2011 and 2010, respectively. Net favorable development of commissions decreased the acquisition expense ratios by 0.6 points and 3.4 points for the three months ended March 31, 2011 and 2010, respectively.

Other underwriting expenses were $5.3 million and $6.5 million for the three months ended March 31, 2011 and 2010, respectively. The decrease in 2011 as compared with 2010 was primarily attributable to a decrease in performance-based compensation in 2011.

Finite Risk

The Finite Risk segment generated 1.3% and 2.8% of our net premiums written for the three months ended March 31, 2011 and 2010, respectively. Due to the inverse relationship between losses and commissions for this segment, we believe it is important to evaluate the overall combined ratio, rather than its component parts of net loss and LAE ratio

and net acquisition expense ratio. The following table summarizes underwriting activity and ratios for the Finite Risk segment for the three months ended March 31, 2011 and 2010 ($ in thousands):

| | 2011 | 2010 | Increase (decrease) |
|---|---|---|---|
| Net premiums written | $2,464 | $6,891 | $(4,427) |
| Net premiums earned | 4,152 | 4,470 | (318) |
| Net losses and LAE | 1,646 | 6,411 | |
| Net acquisition expenses | 1,761 | 3,371 | |
| Net losses, LAE and acquisition expenses | 3,407 | 9,782 | (6,375) |
| Other underwriting expenses | 235 | 338 | (103) |
| Finite Risk segment underwriting income (loss) | $510 | $(5,650) | $6,160 |
| Underwriting ratios: | | | |
| Net loss and LAE | 39.6 % | 143.4 % | |
| Net acquisition expense | 42.4 % | 75.4 % | |
| Net loss, LAE and acquisition expense ratios | 82.0 % | 218.8 % | (136.8) points |
| Other underwriting expense | 5.7 % | 7.6 % | (1.9) points |
| Combined | 87.7 % | 226.4 % | (138.7) points |

During the three months ended March 31, 2011 and 2010, the Finite Risk portfolio consisted of one in force contract and we expect little or no new activity in this segment in the foreseeable future due to the relatively low level of demand for finite risk products. Due to the decline in premium volume in recent years, current year ratios may be significantly impacted by relatively insignificant adjustments of prior years' reserves. The decreases in net premiums written and net premiums earned for the three months ended March 31, 2011 as compared with the three months ended March 31, 2010 were primarily attributable to a decrease in the underlying premiums written relating to the one contract.

Net losses, LAE and acquisition expenses decreased by $6.4 million for the three months ended March 31, 2011 as compared with the three months ended March 31, 2010, primarily due to net favorable development for the three months ended March 31, 2011 as compared with net unfavorable development for the three months ended March 31, 2010. Net favorable development was $0.6 million for the three months ended March 31, 2011 compared with net unfavorable development of $5.7 million for the three months ended March 31, 2010. Net favorable and unfavorable development for the three months ended March 31, 2011 and 2010, respectively, were primarily related to a contract from the 2003 underwriting year. The net favorable development decreased the net loss and LAE and acquisition expense ratio by 14.9 points for the three months ended March 31, 2011 compared with net unfavorable development increasing the ratio by 127.6 points for the three months ended March 31 2010.

Non-Underwriting Results

Net Investment Income

Net investment income was $32.4 million and $37.5 million for the three months ended March 31, 2011 and 2010, respectively. Net investment income decreased in the three months ended March 31, 2011 as compared with the same period in 2010, primarily as a result of lower new money yields and a reduction in invested assets and cash and cash equivalents.

Net Realized Gains on Investments

Net realized gains on investments were $0.4 million and $5.5 million for the three months ended March 31, 2011 and 2010, respectively. Sales of investments resulted in net realized gains of $3.9 million for the three months ended March 31, 2011, primarily from corporate bonds. The net losses from mark-to-market adjustments on trading securities of $3.5 million for the three months ended March 31, 2011 were related primarily to non-U.S. Government securities and insurance-linked securities. Sales of investments resulted in net realized gains of $4.7 million for the three months ended March 31, 2010, primarily from corporate bonds, asset-backed securities and U.S. Government agency residential mortgage-backed securities ("RMBS"). The net gains from mark-to-market adjustments on trading securities of $0.8 million for the three months ended March 31, 2010 were related primarily to insurance-linked securities.

Net Impairment Losses on Investments

Net impairment losses on investments were $1.5 million and $18.1 million for the three months ended March 31, 2011 and 2010, respectively. The net impairment losses reflect other-than-temporary impairments attributable to credit losses for impaired securities. The net impairment losses recorded for the three months ended March 31, 2011 included $0.9 million related to non-agency RMBS and $0.6 million related to sub-prime asset-backed securities ("ABS"). The net impairment losses recorded for the three months ended March 31, 2010 included $9.4 million related to sub-prime ABS, $7.7 million related to commercial mortgage-backed securities ("CMBS") and $1.0 million related to non-agency RMBS.

Net Changes in Fair Value of Derivatives

The appreciation in the fair value of derivatives was $3.7 million for the three months ended March 31, 2011 and the depreciation in the fair value of derivatives was $2.3 million for the three months ended March 31, 2010. The net changes in the fair value of derivatives were attributed to a three year derivative contract with Topiary Capital Limited ("Topiary") that commenced in August 2008 and provides us with annual second event catastrophe protection. During the three months ended March 31, 2011, Japan's Tohoku earthquake qualified as a first event under this agreement and resulted in an increase in the fair value of the derivative instrument due to the increased probability of a recovery. A recovery would be made only if a second qualifying catastrophic event occurred by July 31, 2011. See Note 4 to the "Consolidated Financial Statements" in this Form 10-Q for additional discussion of Topiary.

Operating Expenses

Non-underwriting operating expenses were $4.2 million and $6.2 million for the three months ended March 31, 2011 and 2010, respectively, and related to costs such as compensation and other corporate expenses associated with operating as a publicly-traded company. The decrease in the three months ended March 31, 2011 as compared with the same period in 2010 was primarily attributable to a decrease in performance-based compensation in 2011.

Interest Expense

Interest expense was $4.8 million for each of the three months ended March 31, 2011 and 2010 and related to our $250.0 million of Series B 7.5% Notes due June 1, 2017 (the "Series B Notes").

Income Taxes

Income tax expense was $0.5 million and $0.4 million for the three months ended March 31, 2011 and 2010, respectively. Income tax expense is primarily driven by the composition of income before income tax expense from our subsidiaries and will vary depending on the contribution to net income or loss by our U.S.-based subsidiaries.

Financial Condition

The following discussion of financial condition, liquidity and capital resources as of March 31, 2011 focuses only on material changes from December 31, 2010. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition,” in our 2010 Form 10-K.

Liquidity

Liquidity Requirements

Our principal cash requirements are the payment of losses and LAE, commissions, brokerage, operating expenses and income taxes. Additionally, cash is required for dividends to our common shareholders, the servicing of debt, share repurchases and the purchase of retrocessional contracts. During the three months ended March 31, 2011, unpaid losses and LAE increased by $211.1 million primarily as a result of significant catastrophe activity during the quarter. We expect that our liquidity needs for the next twelve months will be met by our cash and cash equivalents, short-term investments, cash flows from operations, investment income and proceeds from the sale, redemption or maturity of our investments.

Platinum Holdings is a holding company, the assets of which consist primarily of shares of its subsidiaries. Platinum Holdings depends primarily on its available cash resources and liquid investments, dividends and other distributions from its subsidiaries to meet its obligations. Such obligations may include operating expenses, debt service obligations, dividends on its common shares and repurchases of common shares or other securities. The ability of the reinsurance subsidiaries to pay dividends is constrained by our dependence on the financial strength ratings by A.M. Best Company, Inc. (“A.M. Best”) and Standard and Poor’s Ratings Services (“S&P”) of our reinsurance subsidiaries, which depend to a large extent on the capitalization levels of the reinsurance subsidiaries. We believe that Platinum Holdings has sufficient cash resources and its subsidiaries have available dividend capacity to service our current outstanding obligations.

The laws and regulations of Bermuda and the United States include certain restrictions on the amount of dividends or other distributions that can be paid by Platinum Bermuda and Platinum US to their respective parent companies, Platinum Holdings and Platinum Finance, without the prior approval of the relevant regulatory authorities. Based on the regulatory restrictions, the maximum amount available for payment of dividends or other distributions by our reinsurance subsidiaries during 2011 without prior regulatory approval is as follows ($ in thousands):

| | | |
|---|---|---|
| Platinum Bermuda | $ | 341,541 |
| Platinum US | | 64,282 |
| Total | $ | 405,823 |

Platinum Bermuda made dividend payments of $180.0 million to Platinum Holdings during the three months ended March 31, 2011. Platinum US paid no dividends to Platinum Finance during the three months ended March 31, 2011. As of March 31, 2011, the remaining amount available for payment of dividends or other distributions by our reinsurance subsidiaries without regulatory approval was $225.8 million.

During the three months ended March 31, 2011, Platinum US repaid a $100.0 million surplus note to Platinum Regency, the parent company of Platinum Finance. Platinum Regency subsequently paid dividends of $100.0 million to Platinum Holdings.

During the three months ended March 31, 2011, Platinum Holdings repaid loans from Platinum Finance of $75.0 million, due February 1, 2011. In March 2011, Platinum Holdings contributed an additional $120.0 million in capital

to Platinum Bermuda.

Platinum Bermuda and Platinum US have reinsurance and other contracts that require them to provide collateral to ceding companies should certain events occur, such as a decline in our ratings by A.M. Best or S&P below specified levels, or a decline in statutory equity below specified amounts, or when certain levels of assumed liabilities are attained. Some reinsurance contracts also have special termination provisions that permit early termination should certain events occur. As of March 31, 2011 and December 31, 2010, we held investments with a carrying value of $54.1 million and $69.8 million, respectively, and cash and cash equivalents of $17.8 million and $9.9 million, respectively, in trust to collateralize obligations under our reinsurance contracts. As of March 31, 2011 and December 31, 2010, we held investments with a carrying value of $48.1 million and $48.6 million, respectively, and cash and cash equivalents of $86.0 million and $100.3 million, respectively, to collateralize letters of credit issued under our credit facility. The letters of credit were issued primarily to collateralize obligations under various reinsurance contracts. See “Sources of Liquidity” below for additional discussion of our credit facility.

Sources of Liquidity

Our sources of funds consist primarily of cash from operations, proceeds from sales, redemption and maturity of investments, issuance of securities and cash and cash equivalents held by us. Net cash flows used in operations was $5.2 million for the three months ended March 31, 2011 and net cash flows provided by operations excluding trading securities was $33.0 million for the three months ended March 31, 2010. In addition, we have a $400.0 million credit facility with a syndicate of lenders that consists of a $150.0 million senior unsecured credit facility available for revolving borrowings and letters of credit and a $250.0 million senior secured credit facility available for letters of credit. As of March 31, 2011, under the credit facility $150.0 million was available for borrowing and letters of credit on an unsecured basis and $130.7 million was available for letters of credit on a secured basis. As of December 31, 2010, under the credit facility $150.0 million was available for borrowing and letters of credit on an unsecured basis and $116.3 million was available for letters of credit on a secured basis. The credit facility requires us to satisfy various covenants, including several financial covenants. As of March 31, 2011, we were in compliance with all covenants under the credit facility. The credit facility expires on September 13, 2011. While we intend to enter into a new credit facility in 2011, the terms of the new credit facility will likely be different than the terms of the current credit facility.

Our aggregate cash and invested assets totaled $4.1 billion and $4.2 billion at March 31, 2011 and December 31, 2010, respectively. Balances due from and to brokers are included in other assets and other liabilities, respectively, and the net balance was less than $0.1 million as of both March 31, 2011 and December 31, 2010. Our investment portfolio consists primarily of diversified, high quality, predominantly investment grade fixed maturity securities. Our aggregate cash and invested assets, including accrued investment income and net balances due to and from brokers, had a duration of 4.1 years as of March 31, 2011 and December 31, 2010.

As of March 31, 2011, the fair value of our available-for-sale securities was $2.8 billion, with a net unrealized loss of $11.1 million, and the fair value of our trading securities was $178.3 million. See Note 3 to the “Consolidated Financial Statements” in this Form 10-Q for additional discussion on fair values. The following table sets forth the fair values, net unrealized gains and losses and average credit quality of our fixed maturity securities as of March 31, 2011 ($ in thousands):

| | Fair Value | Net Unrealized Gain (Loss) | Average Credit Quality |
|---|---|---|---|
| Available-for-sale securities: | | | |
| U.S. Government | $390,179 | $(18,677) | Aaa |
| U.S. Government agencies | 100,487 | 487 | Aaa |
| Corporate bonds: | | | |
| Industrial | 212,395 | 9,701 | A3 |
| Utilities | 65,695 | 1,844 | A3 |
| Insurance | 50,088 | 2,196 | A3 |
| Finance | 7,412 | 65 | Baa1 |
| Subtotal | 335,590 | 13,806 | A3 |
| Commercial mortgage-backed securities | 203,345 | 10,114 | Aa2 |
| Residential mortgage-backed securities: | | | |
| U.S. Government agency residential mortgage-backed securities | 77,242 | 3,009 | Aaa |
| Non-agency residential mortgage-backed securities | 55,164 | (23,229) | B2 |
| Alt-A residential mortgage-backed securities | 6,663 | (2,841) | Caa1 |
| Subtotal | 139,069 | (23,061) | A3 |
| Asset-backed securities: | | | |
| Asset-backed securities | 13,336 | (264) | Aaa |
| Sub-prime asset-backed securities | 11,019 | (2,759) | Caa3 |
| Subtotal | 24,355 | (3,023) | Baa2 |
| Municipal bonds: | | | |
| State general obligation bonds | 810,965 | (1,168) | Aa2 |
| Essential service bonds | 386,854 | 2,359 | Aa3 |
| State income tax and sales tax bonds | 164,016 | 3,347 | Aa1 |
| Other municipal bonds | 138,156 | 1,378 | Aa2 |
| Pre-refunded bonds | 45,993 | 2,174 | Aa2 |
| Subtotal | 1,545,984 | 8,090 | Aa2 |
| Non-U.S. governments | 61,119 | 1,157 | Aa1 |

| | | | |
|---|---|---|---|
| Total available-for-sale securities | 2,800,128 | (11,107 ) | Aa2 |
| | | | |
| Trading securities: | | | |
| Non-U.S. dollar denominated securities: | | | |
| Non-U.S. governments | 142,043 | n/a | Aaa |
| U.S. Government agencies | 16,220 | n/a | Aaa |
| Corporate bonds | 71 | n/a | Baa2 |
| Insurance-linked securities | 19,919 | n/a | Ba3 |
| Total trading securities | 178,253 | n/a | Aa1 |
| | | | |
| Short-term investments | 97,153 | n/a | Aaa |
| | | | |
| Total investments | $3,075,534 | $(11,107 ) | Aa2 |

The net unrealized gain position of our portfolio of CMBS was $10.1 million as of March 31, 2011 as compared with $8.3 million as of December 31, 2010. The improvement in the net unrealized gain position was primarily attributable to a decrease or narrowing of interest rate spreads, partially offset by an increase in U.S. Treasury rates during the quarter. We analyze our 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. Our portfolio consists primarily of senior tranches of CMBS with high credit ratings and strong credit support.

The net unrealized loss position of our RMBS portfolio was $23.1 million, with non-agency RMBS representing $23.2 million, as of March 31, 2011 as compared with $25.9 million, with non-agency RMBS representing $25.6 million, as of December 31, 2010. The improvement in the net unrealized loss position was primarily attributable to a decrease or narrowing of interest rate spreads and the recognition of credit impairments during the quarter. Approximately 56% of the RMBS in our investment portfolio are issued or guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or the Federal Deposit Insurance Corporation and are referred to as U.S. Government agency RMBS. The remaining 44% of our RMBS were issued by non-agency institutions and included securities with underlying Alt-A mortgages. The net unrealized loss position of our portfolio of sub-prime ABS was $2.8 million as of March 31, 2010 as compared with $4.4 million as of December 31, 2010. The improvement in the net unrealized loss position was primarily attributable to a decrease or narrowing of interest rate spreads during the quarter. 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, but are not limited to, 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 believe that the gross unrealized losses in our available-for-sale 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 recorded in future periods. Conversely, economic conditions may improve more than expected and favorably increase the cash flows expected from these impaired securities, which would be earned through net investment income over the remaining life of the security.

Capital Resources

At March 31, 2011, our capital resources of $1.9 billion consisted of common shareholders’ equity of $1.7 billion and $250.0 million of Series B Notes. At December 31, 2010, our capital resources of $2.1 billion consisted of common shareholders’ equity of $1.9 billion and $250.0 million of the Series B Notes. The decrease in capital during the three months ended March 31, 2011 was primarily attributable to a net loss of $157.2 million, option purchases of $47.9 million and repurchases of common shares of $33.9 million, partially offset by an improvement in accumulated other comprehensive loss.

Our Board of Directors established a program authorizing the repurchase of our common shares. Since the program was established, our Board of Directors has approved increases in the repurchase program from time to time, most recently on February 16, 2011, to result in authority as of such date to repurchase up to a total of $250.0 million of our common shares.

During the three months ended March 31, 2011, in accordance with the share repurchase program authorized by our Board of Directors, we repurchased 762,000 of our common shares in the open market for an aggregate amount of $33.9 million at a weighted average cost including commissions of $44.50 per share. The shares we repurchased were canceled. In January, 2011, the Company purchased, for an aggregate of $47.9 million in cash, the common share options issued to RenaissanceRe Holdings Ltd. (“RenaissanceRe”) in connection with the Company’s initial public offering in 2002. The options provided RenaissanceRe with the right to purchase 2,500,000 common shares from the Company for $27.00 per share and were subsequently amended to provide for net share settlements. The options were purchased under the Company’s share repurchase program and were canceled. As of March 31, 2011, the remaining amount available under the repurchase program was $237.4 million.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined for the purposes of the U.S. Securities and Exchange Commission (“SEC”) rules, which are not accounted for or disclosed in our consolidated financial statements as of March 31, 2011.

Contractual Obligations

There have been no material changes outside of the ordinary course of business to our contractual obligations as disclosed under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition - Contractual Obligations,” in our 2010 Form 10-K.

Recently Issued Accounting Pronouncements

See Note 1 to the "Consolidated Financial Statements" in this Form 10-Q for a discussion of recently issued accounting pronouncements.

Note On Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Forward-looking statements are based on our current plans or expectations that are inherently subject to significant business, economic and competitive uncertainties and contingencies. 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," "intend," "believe," "predict," " or words of similar import generally involve forward-looking statements.

The inclusion of forward-looking statements in this Form 10-Q should not be considered as a representation by us or any other person that our current plans or expectations will be achieved. Numerous factors could cause our actual results to differ materially from those in forward-looking statements, including the following:

- severe natural or man-made catastrophic events;
- the effectiveness of our loss limitation methods and pricing models;
- the adequacy of our liability for unpaid losses and loss adjustment expenses;
- our ability to maintain our A.M. Best and S&P ratings;
- our ability to raise capital on acceptable terms if necessary;
- the cyclicality of the property and casualty reinsurance business;
- the highly competitive nature of the property and casualty reinsurance industry;
- our ability to maintain our business relationships with reinsurance brokers;
- the availability of retrocessional reinsurance on acceptable terms;
- market volatility and interest rate and currency exchange rate fluctuation;
- tax, regulatory or legal restrictions or limitations applicable to us or the property and casualty reinsurance business generally;
- general political and economic conditions, including the effects of civil unrest, acts of terrorism, war or a prolonged United States or global economic downturn or recession; and
- changes in our plans, strategies, objectives, expectations or intentions, which may happen at any time at our discretion.

As a consequence, our future financial condition and results may differ from those expressed in any forward-looking statements made by or on behalf of us. The foregoing factors should not be construed as exhaustive. Additionally, forward-looking statements speak only as of the date they are made, and we undertake no obligation to revise or update forward-looking statements to reflect new information or circumstances after the date hereof or to reflect the occurrence of future events. For a detailed discussion of our risk factors, refer to Item 1A, "Risk Factors," in our 2010 Form 10-K.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe that we are principally exposed to the following types of market risk: interest rate risk, credit risk, liquidity risk and foreign currency exchange rate risk. The following discussion focuses only on material changes to these types of market risks since December 31, 2010. See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in our 2010 Form 10-K for a complete discussion of these risks.

Interest Rate Risk

The following table shows the aggregate hypothetical impact on the fair value of our fixed maturity securities portfolio as of March 31, 2011, resulting from an immediate parallel shift in interest rates ($ in thousands):

| | Interest Rate Shift in Basis Points | | | | |
|---|---|---|---|---|---|
| | - 100bp | - 50bp | Current | + 50bp | + 100bp |
| Total market value | $3,153,523 | $3,065,183 | $2,978,381 | $2,894,653 | $2,814,345 |
| Percent change in market value | 5.9% | 2.9% | – | (2.8%) | (5.5%) |
| Resulting net appreciation (depreciation) | $168,263 | $79,923 | $(6,879) | $(90,607) | $(170,915) |

## ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and timely reported as specified in the SEC's rules and forms, and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

No changes occurred during the three months ended March 31, 2011 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II – OTHER INFORMATION

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes our purchases of our common shares during the three months ended March 31, 2011:

| Period | Total Number of Shares | Average Price Paid per Share | Total Number of Shares Purchased as | Maximum Dollar Value of Shares |
|---|---|---|---|---|

| | Purchased | | (1) | Part of a Publicly Announced Program (2) | | that May Yet Be Purchased Under the Program |
|---|---|---|---|---|---|---|
| January 1, 2011 – January 31, 2011(3) | 350,000 | $ | 45.32 | 350,000 | $ | 115,509,685 |
| February 1, 2011 – February 28, 2011 | 412,000 | | 43.80 | 412,000 | | 237,395,493 |
| March 1, 2011 – March 31, 2011 | – | | – | – | | |