

PLATINUM UNDERWRITERS HOLDINGS LTD
Form 10-Q
July 24, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014

OR

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

Commission File Number: 001-31341

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

Bermuda
(State or other jurisdiction of
incorporation or organization)

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

Waterloo House
100 Pitts Bay Road
Pembroke, Bermuda
(Address of principal executive
offices)

HM 08
(Zip Code)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The registrant had 26,489,669 common shares, par value \$0.01 per share, outstanding as of July 17, 2014.

PLATINUM UNDERWRITERS HOLDINGS, LTD.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Platinum Underwriters Holdings, Ltd. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
 June 30, 2014 and December 31, 2013
 (\$ in thousands, except share data)

	(Unaudited)	
	June 30, 2014	December 31, 2013
ASSETS		
Investments:		
Fixed maturity available-for-sale securities at fair value (amortized cost - \$1,815,446 and \$1,799,888, respectively)	\$ 1,921,917	\$ 1,857,870
Fixed maturity trading securities at fair value (amortized cost - \$99,220 and \$97,959, respectively)	103,501	103,395
Short-term investments	42,144	66,679
Total investments	2,067,562	2,027,944
Cash and cash equivalents	1,361,730	1,464,418
Accrued investment income	20,593	20,026
Reinsurance premiums receivable	134,391	138,454
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses	1,799	1,057
Prepaid reinsurance premiums	2,639	1,032
Funds held by ceding companies	88,091	119,241
Deferred acquisition costs	33,019	31,103
Reinsurance deposit assets	82,164	79,303
Deferred tax assets	18,160	25,141
Other assets	14,568	16,166
Total assets	\$ 3,824,716	\$ 3,923,885
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	\$ 1,560,517	\$ 1,671,365
Unearned premiums	133,244	126,300
Debt obligations	250,000	250,000
Commissions payable	51,497	78,791
Other liabilities	51,589	50,722
Total liabilities	\$ 2,046,847	\$ 2,177,178
Shareholders' Equity		
Common shares, \$0.01 par value, 200,000,000 shares authorized, 26,384,970 and 28,142,977 shares issued and outstanding, respectively	\$ 264	\$ 281
Additional paid-in capital	-	10,711
Accumulated other comprehensive income	91,351	48,084
Retained earnings	1,686,254	1,687,631
Total shareholders' equity	\$ 1,777,869	\$ 1,746,707

Total liabilities and shareholders' equity	\$ 3,824,716	\$ 3,923,885
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See accompanying notes to consolidated financial statements.

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
For the Three and Six Months Ended June 30, 2014 and 2013
(\$ in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenue:				
Net premiums earned	\$124,825	\$142,933	\$251,098	\$269,786
Net investment income	17,645	17,808	35,337	36,352
Net realized gains (losses) on investments	(596)	11,686	(1,111)	25,004
Total other-than-temporary impairments	(19)	(200)	15	(614)
Portion of impairment losses recognized in other comprehensive income	(117)	(1,316)	(239)	(1,323)
Net impairment losses on investments	(136)	(1,516)	(224)	(1,937)
Other income (expense)	1,194	(315)	2,711	1,077
Total revenue	142,932	170,596	287,811	330,282
Expenses:				
Net losses and loss adjustment expenses	50,865	62,667	77,374	76,665
Net acquisition expenses	27,848	30,313	55,349	60,532
Operating expenses	21,434	19,718	39,717	39,023
Net foreign currency exchange losses (gains)	34	(859)	(153)	(1,079)
Interest expense	4,788	4,780	9,574	9,559
Total expenses	104,969	116,619	181,861	184,700
Income before income taxes	37,963	53,977	105,950	145,582
Income tax expense	1,783	4,123	6,035	9,212
Net income	\$36,180	\$49,854	\$99,915	\$136,370
Earnings per common share:				
Basic earnings per common share	\$1.36	\$1.63	\$3.68	\$4.32
Diluted earnings per common share	\$1.34	\$1.61	\$3.63	\$4.26
Shareholder dividends:				
Common shareholder dividends declared	\$2,112	\$2,337	\$4,321	\$4,921
Dividends declared per common share	\$0.08	\$0.08	\$0.16	\$0.16

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
For the Three and Six Months Ended June 30, 2014 and 2013
(\$ in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net income	\$36,180	\$49,854	\$99,915	\$136,370
Other comprehensive income (loss) on available-for-sale securities before reclassifications:				
Change in net unrealized gains and losses on securities with other-than-temporary impairments recorded	(19)	(200)	15	(614)
Change in net unrealized gains and losses on all other securities	18,976	(64,027)	48,306	(58,217)
Total change in net unrealized gains and losses	18,957	(64,227)	48,321	(58,831)
Reclassifications to net income on available-for-sale securities:				
Net realized gains on investments	(56)	(12,968)	(56)	(27,243)
Net impairment losses on investments	136	1,516	224	1,937
Total reclassifications to net income	80	(11,452)	168	(25,306)
Other comprehensive income (loss) before income taxes	19,037	(75,679)	48,489	(84,137)
Income tax (expense) benefit	(2,245)	8,943	(5,222)	10,814
Other comprehensive income (loss)	16,792	(66,736)	43,267	(73,323)
Comprehensive income (loss)	\$52,972	\$(16,882)	\$143,182	\$63,047

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
For the Six Months Ended June 30, 2014 and 2013
(\$ in thousands)

	2014	2013
Common shares:		
Balances at beginning of period	\$281	\$327
Issuance of common shares	2	6
Repurchase of common shares	(19)	(40)
Balances at end of period	264	293
Additional paid-in capital:		
Balances at beginning of period	10,711	209,897
Issuance of common shares	(1,221)	13,652
Amortization of share-based compensation	4,280	4,461
Repurchase of common shares	(13,770)	(224,193)
Balances at end of period	-	3,817
Accumulated other comprehensive income:		
Balances at beginning of period	48,084	137,690
Other comprehensive income (loss)	43,267	(73,323)
Balances at end of period	91,351	64,367
Retained earnings:		
Balances at beginning of period	1,687,631	1,546,620
Net income	99,915	136,370
Repurchase of common shares	(96,971)	-
Common share dividends	(4,321)	(4,921)
Balances at end of period	1,686,254	1,678,069
Total shareholders' equity	\$1,777,869	\$1,746,546

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
For the Six Months Ended June 30, 2014 and 2013
(\$ in thousands)

	2014	2013
Operating Activities:		
Net income	\$99,915	\$ 136,370
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized losses (gains) on investments	1,111	(25,004)
Net impairment losses on investments	224	1,937
Net foreign currency exchange losses (gains)	(153)	(1,079)
Amortization of share-based compensation	6,407	6,506
Other amortization and depreciation	5,243	4,552
Deferred income tax expense	1,759	2,291
Changes in:		
Accrued investment income	(551)	1,138
Reinsurance premiums receivable	4,153	(6,115)
Funds held by ceding companies	31,008	(5,611)
Deferred acquisition costs	(1,878)	(2,143)
Reinsurance deposit assets	(2,861)	(26,255)
Net unpaid and paid losses and loss adjustment expenses	(118,647)	(144,198)
Net unearned premiums	5,016	11,349
Commissions payable	(27,365)	8,424
Other operating assets and liabilities	(1,962)	(11,275)
Net cash provided by (used in) operating activities	1,419	(49,113)
Investing Activities:		
Proceeds from sales of:		
Fixed maturity available-for-sale securities	1,655	203,571
Short-term investments	6,613	11,857
Proceeds from the maturities or paydowns of:		
Fixed maturity available-for-sale securities	68,297	93,075
Short-term investments	83,436	176,568
Acquisitions of:		
Fixed maturity available-for-sale securities	(90,026)	(218,111)
Short-term investments	(61,852)	(97,705)
Acquisitions of furniture, equipment and other assets	-	(3,805)
Net cash provided by (used in) investing activities	8,123	165,450
Financing Activities:		
Dividends paid to common shareholders	(4,321)	(4,921)
Repurchase of common shares	(110,760)	(224,233)
Proceeds from share-based compensation, including income tax benefits	247	14,144
Net cash provided by (used in) financing activities	(114,834)	(215,010)
Effect of foreign currency exchange rate changes on cash and cash equivalents	2,604	(12,261)
Net increase (decrease) in cash and cash equivalents	(102,688)	(110,934)

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Cash and cash equivalents at beginning of period	1,464,418	1,720,395
Cash and cash equivalents at end of period	\$1,361,730	\$1,609,461
Supplemental disclosures of cash flow information:		
Income taxes paid, net of refunds	\$3,919	\$15,264
Interest paid	\$9,375	\$9,375

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Months Ended June 30, 2014 and 2013

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation and Consolidation

Platinum Underwriters Holdings, Ltd. (“Platinum Holdings”) is a holding company domiciled in Bermuda. Through our reinsurance subsidiaries, we provide property and marine, casualty and finite risk reinsurance coverages, through reinsurance brokers, 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 Regency Holdings (“Platinum Regency”), Platinum Underwriters Finance, Inc. (“Platinum Finance”) and Platinum Administrative Services, Inc. The terms “we”, “us”, and “our” refer to the Company, unless the context otherwise indicates.

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

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. All material inter-company transactions and accounts have been eliminated in preparing these consolidated financial statements. The consolidated financial statements as of June 30, 2014 and for the three and six months ended June 30, 2014 and 2013 are unaudited and include all adjustments consisting of normal recurring items that management considers necessary for a fair presentation under U.S. GAAP. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2013.

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from these estimates. The major estimates used in the preparation of the Company's consolidated financial statements, and therefore considered to be critical accounting estimates, include, but are not limited to, premiums written and earned, unpaid losses and loss adjustment expenses (“LAE”), valuation of investments and income taxes. In addition, estimates are used in our risk transfer analysis 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.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Months Ended June 30, 2014 and 2013

2. Investments

Fixed Maturity Available-for-sale Securities

Our fixed maturity available-for-sale securities are U.S. dollar denominated securities. The following table sets forth our fixed maturity available-for-sale securities as of June 30, 2014 and December 31, 2013 (\$ in thousands):

	Amortized Cost	Included in Accumulated Other Comprehensive Income		Fair Value	Non-credit portion of OTTI(1)
		Gross Unrealized Gains	Gross Unrealized Losses		
June 30, 2014:					
U.S. Government	\$ 49,432	\$ 172	\$ -	\$ 49,604	\$ -
U.S. Government agencies	89,537	1,564	48	91,053	-
Municipal bonds	1,185,314	85,957	1,214	1,270,057	-
Non-U.S. governments	39,977	540	-	40,517	-
Corporate bonds	215,951	12,232	465	227,718	-
Commercial mortgage-backed securities	65,258	4,518	109	69,667	-
Residential mortgage-backed securities	153,793	1,744	465	155,072	162
Asset-backed securities	16,184	2,553	508	18,229	337
Total fixed maturity available-for-sale securities	\$ 1,815,446	\$ 109,280	\$ 2,809	\$ 1,921,917	\$ 499
December 31, 2013:					
U.S. Government	\$ 4,561	\$ 204	\$ -	\$ 4,765	\$ -
U.S. Government agencies	51,847	-	725	51,122	-
Municipal bonds	1,220,869	54,333	5,955	1,269,247	-
Non-U.S. governments	39,973	541	-	40,514	-
Corporate bonds	224,095	6,704	3,564	227,235	-
Commercial mortgage-backed securities	72,641	4,982	132	77,491	-
Residential mortgage-backed securities	169,699	1,335	1,069	169,965	331
Asset-backed securities	16,203	1,657	329	17,531	305
Total fixed maturity available-for-sale securities	\$ 1,799,888	\$ 69,756	\$ 11,774	\$ 1,857,870	\$ 636

(1) The non-credit portion of other than temporary impairments ("OTTI") represents the amount of unrealized losses on impaired securities that were not recorded in the consolidated statements of operations as of the reporting date. These unrealized losses are included in gross unrealized losses as of June 30, 2014 and December 31, 2013.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Months Ended June 30, 2014 and 2013

Fixed Maturity Trading Securities

Our fixed maturity trading securities are non-U.S. dollar denominated securities that, along with our non-U.S. dollar short-term trading investments and non-U.S. dollar cash and cash equivalents, are generally held for the purposes of hedging our net non-U.S. dollar denominated reinsurance liabilities.

The following table sets forth the fair value of our fixed maturity trading securities as of June 30, 2014 and December 31, 2013 (\$ in thousands):

	June 30, 2014	December 31, 2013
Non-U.S. governments	\$103,501	\$103,395
Total fixed maturity trading securities	\$103,501	\$103,395

Maturities

The following table sets forth the amortized cost and fair value of our fixed maturity available-for-sale and trading securities by stated maturity as of June 30, 2014 (\$ in thousands):

	Amortized Cost	Fair Value
Due in one year or less	\$58,890	\$59,718
Due from one to five years	577,027	602,188
Due from five to ten years	635,615	670,134
Due in ten or more years	407,899	450,410
Mortgage-backed and asset-backed securities	235,235	242,968
Total	\$1,914,666	\$2,025,418

The actual maturities of our fixed maturity available-for-sale and trading securities could differ from stated maturities due to call or prepayment provisions.

Short-term Investments

We account for short-term investments as trading in accordance with the fair value option and include them in investing activities on the statements of cash flows. The following table sets forth the fair value of our short-term investments as of June 30, 2014 and December 31, 2013 (\$ in thousands):

	June 30, 2014	December 31, 2013
Non-U.S. governments	\$42,144	\$66,679
Total short-term investments	\$42,144	\$66,679

Platinum Underwriters Holdings, Ltd. and Subsidiaries
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 For the Three and Six Months Ended June 30, 2014 and 2013

Other-Than-Temporary Impairments

We analyze the creditworthiness of our available-for-sale securities by reviewing various performance metrics of the issuer. We determined that none of our government bonds, government agencies, municipal bonds, corporate bonds or commercial mortgage-backed securities (“CMBS”) were other-than-temporarily impaired for the three and six months ended June 30, 2014 and 2013.

The following table sets forth the net impairment losses on investments for the three and six months ended June 30, 2014 and 2013 (\$ in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Non-agency residential mortgage-backed securities	\$135	\$1,075	\$223	\$1,411
Sub-prime asset-backed securities	1	441	1	526
Net impairment losses on investments	\$136	\$1,516	\$224	\$1,937

Residential mortgage-backed securities (“RMBS”) include U.S. Government agency RMBS and non-agency RMBS. Securities with underlying sub-prime mortgages as collateral are included in asset-backed securities (“ABS”). We determined that none of our U.S. Government agency RMBS were other-than-temporarily impaired for the three and six months ended June 30, 2014 and 2013. 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. As of June 30, 2014, the single largest unrealized loss within our RMBS portfolio was \$0.1 million related to a non-agency RMBS security with an amortized cost of \$4.1 million. As of June 30, 2014, the single largest unrealized loss within our sub-prime ABS portfolio was \$0.3 million related to a security with an amortized cost of \$0.6 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 and six months ended June 30, 2014 and 2013 (\$ in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Balance, beginning of period	\$30,415	\$36,562	\$31,603	\$40,219
Credit losses on securities previously impaired	136	1,516	224	1,937
Reduction for paydowns and securities sold	(2,093)	(2,204)	(3,132)	(6,138)
Reduction for increases in cash flows expected to be collected	(324)	(112)	(561)	(256)
Balance, end of period	\$28,134	\$35,762	\$28,134	\$35,762

For the three and six months ended June 30, 2014, total cumulative credit losses decreased primarily due to principal paydowns. As of June 30, 2014, total cumulative credit losses were related to CMBS, non-agency RMBS and sub-prime ABS. The cumulative credit loss we recorded on CMBS of \$0.3 million was on one security issued in

2007. As of June 30, 2014, 1.8% of the mortgages backing this security were 90 days or more past due and 3.0% of the mortgages had incurred cumulative losses. The cumulative credit losses we recorded on non-agency RMBS and sub-prime ABS of \$27.8 million were on sixteen securities issued from 2004 to 2007. As of June 30, 2014, 15.5% of the mortgages backing these securities were 90 days or more past due and 8.7% of the mortgages had incurred cumulative losses. For these securities, the expected losses for the underlying mortgages were greater than the remaining average credit support of 2.7%.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Months Ended June 30, 2014 and 2013

Gross Unrealized Losses

The following table sets forth our gross unrealized losses on securities classified as fixed maturity available-for-sale aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2014 and December 31, 2013 (\$ in thousands):

	June 30, 2014		December 31, 2013	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Less than twelve months:				
U.S. Government agencies	\$8,860	\$48	\$41,122	\$725
Municipal bonds	30,758	460	247,873	5,955
Corporate bonds	-	-	90,789	3,486
Commercial mortgage-backed securities	-	-	2,938	1
Residential mortgage-backed securities	65,022	83	35,910	172
Asset-backed securities	384	1	13,576	24
Total	\$105,024	\$592	\$432,208	\$10,363
Twelve months or more:				
U.S. Government agencies	\$-	\$-	\$-	\$-
Municipal bonds	58,403	754	-	-
Corporate bonds	27,546	465	920	78
Commercial mortgage-backed securities	4,643	109	4,624	131
Residential mortgage-backed securities	21,804	382	10,587	897
Asset-backed securities	13,684	507	699	305
Total	\$126,080	\$2,217	\$16,830	\$1,411
Total unrealized losses:				
U.S. Government agencies	\$8,860	\$48	\$41,122	\$725
Municipal bonds	89,161	1,214	247,873	5,955
Corporate bonds	27,546	465	91,709	3,564
Commercial mortgage-backed securities	4,643	109	7,562	132
Residential mortgage-backed securities	86,826	465	46,497	1,069
Asset-backed securities	14,068	508	14,275	329
Total	\$231,104	\$2,809	\$449,038	\$11,774

We believe that the gross unrealized losses in our fixed maturity available-for-sale securities portfolio of \$2.8 million represent temporary declines in fair value. We believe that the unrealized losses are not necessarily predictive of ultimate performance and that the provisions we have made for net impairment losses are adequate. However, economic conditions may deteriorate more than expected and may adversely affect the expected cash flows of our securities, which in turn may lead to impairment losses being recorded in future periods. Conversely, economic conditions may improve more than expected and favorably increase the expected cash flows of our impaired securities, which would be earned through net investment income over the remaining life of the security.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Months Ended June 30, 2014 and 2013

Net Investment Income

The following table sets forth our net investment income for the three and six months ended June 30, 2014 and 2013 (\$ in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Fixed maturity securities	\$ 16,969	\$ 16,870	\$ 33,971	\$ 34,613
Short-term investments and cash and cash equivalents	771	1,175	1,502	2,223
Funds held by ceding companies	877	811	1,781	1,653
Subtotal	18,617	18,856	37,254	38,489
Investment expenses	(972)	(1,048)	(1,917)	(2,137)
Net investment income	\$ 17,645	\$ 17,808	\$ 35,337	\$ 36,352

Net Realized Gains (Losses) on Investments

The following table sets forth our net realized gains (losses) on investments for the three and six months ended June 30, 2014 and 2013 (\$ in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Gross realized gains on the sale of investments	\$ 56	\$ 12,982	\$ 56	\$ 27,258
Gross realized losses on the sale of investments	-	(15)	-	(15)
Net realized gains on the sale of investments	56	12,967	56	27,243
Fair value adjustments on trading securities	(652)	(1,281)	(1,167)	(2,239)
Net realized gains (losses) on investments	\$(596)	\$ 11,686	\$(1,111)	\$ 25,004

3. Fair Value Measurements

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

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

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

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

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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Level 1, 2 and 3 Financial Assets Carried at Fair Value

The fair values of our fixed maturity securities, short-term investments and cash and cash equivalents are based on prices primarily obtained from index providers, pricing vendors or broker-dealers using observable inputs. The fair value measurements of all of our securities were based on unadjusted prices provided by third party pricing sources. We validate the prices we obtain from third party pricing sources by performing price comparisons against multiple pricing sources, if available, periodically back-testing sales to the previously reported fair value, performing an in-depth review of specific securities when evaluating stale prices and large price movements, as well as performing other validation procedures. We also continuously monitor market data that relates to our investment portfolio and review pricing documentation that describes the methodologies used by various pricing sources. If we determine that a price appears unreasonable, we investigate and assess whether the price should be adjusted. The fair value measurements of our reinsurance deposit assets were based upon our internal valuation model, which utilizes certain characteristics of both the market and income valuation approaches. Our fixed maturity securities, short-term investments, cash and cash equivalents and reinsurance deposit assets are classified in the fair value hierarchy as follows:

U.S. Government

Level 1 - The fair values of U.S. Government securities were based on quoted prices in active markets for identical assets.

U.S. Government agencies

Level 2 - The fair values of U.S. Government agencies were based on observable inputs that may include the spread above the risk-free yield curve, reported trades and broker-dealer quotes.

Municipal bonds

Level 2 - 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.

Non-U.S. governments

Level 1 or 2 - The fair values of non-U.S. government securities classified as Level 1 were based on quoted prices in active markets for identical assets. Non-U.S. government securities classified as Level 2 were based on observable inputs that may include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. Our non-U.S. government bond portfolio consisted of securities issued primarily by governments, provinces, agencies and supranationals.

Corporate bonds

Level 2 - The fair values of corporate 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 industry and economic indicators.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
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Commercial mortgage-backed securities

Level 2 - 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.

Residential mortgage-backed securities

Level 2 or 3 - Our RMBS portfolio was comprised of securities issued by U.S. Government agencies and by non-agency institutions. The fair values of RMBS classified as Level 2 were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, loan level information, security cash flows and structures, prepayment speeds, delinquencies, loss severities and default rates. Non-agency RMBS classified as Level 3 used unobservable inputs that may include the probability of default, loss severity in the event of default and prepayment speeds.

Asset-backed securities

Level 2 or 3 - The fair values of ABS classified as Level 2 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. Sub-prime ABS classified as Level 3 used unobservable inputs that may include the probability of default, loss severity in the event of default and prepayment speeds.

Short-term investments

Level 1 or 2 - The fair values of short-term investments classified as Level 1 were based on quoted prices in active markets for identical assets. The fair values of short-term investments classified as Level 2 were determined based on observable inputs that may include the risk-free yield curve, reported trades and broker-dealer quotes.

Cash and cash equivalents

Level 1 or 2 - The fair values of cash and cash equivalents classified as Level 1 were determined based on quoted prices in active markets for identical assets. The fair values of cash and cash equivalents classified as Level 2 were determined based on observable inputs that may include the risk-free yield curve, reported trades and broker-dealer quotes. Cash and cash equivalents include demand deposits, time deposits, money market instruments and both U.S. Government and non-U.S. government obligations.

Reinsurance deposit assets

Level 3 - The fair values of our reinsurance deposit assets were determined by management primarily using unobservable inputs through the application of our own assumptions and internal valuation model. See further discussion on reinsurance deposit assets below.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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Fair Value Levels

The following table presents the fair value hierarchy for those financial assets measured at fair value on a recurring basis by the Company as of June 30, 2014 and December 31, 2013 (\$ in thousands):

	Fair Value Measurement Using:			
	Total	Level 1	Level 2	Level 3
June 30, 2014:				
Investments:				
U.S. Government	\$49,604	\$49,604	\$-	\$-
U.S. Government agencies	91,053	-	91,053	-
Municipal bonds	1,270,057	-	1,270,057	-
Non-U.S. governments	144,018	55,593	88,425	-
Corporate bonds	227,718	-	227,718	-
Commercial mortgage-backed securities	69,667	-	69,667	-
Residential mortgage-backed securities	155,072	-	149,973	5,099
Asset-backed securities	18,229	-	17,136	1,093
Short -term investments	42,144	-	42,144	-
Total investments	2,067,562	105,197	1,956,173	6,192
Cash and cash equivalents	1,361,730	1,330,895	30,835	-
Reinsurance deposit assets	82,164	-	-	82,164
Total	\$3,511,456	\$1,436,092	\$1,987,008	\$88,356
December 31, 2013:				
Investments:				
U.S. Government	\$4,765	\$4,765	\$-	\$-
U.S. Government agencies	51,122	-	51,122	-
Municipal bonds	1,269,247	-	1,269,247	-
Non-U.S. governments	143,909	54,980	88,929	-
Corporate bonds	227,235	-	227,235	-
Commercial mortgage-backed securities	77,491	-	77,491	-
Residential mortgage-backed securities	169,965	-	169,372	593
Asset-backed securities	17,531	-	15,304	2,227
Short -term investments	66,679	8,933	57,746	-
Total investments	2,027,944	68,678	1,956,446	2,820
Cash and cash equivalents	1,464,418	1,464,418	-	-
Reinsurance deposit assets	79,303	-	-	79,303
Total	\$3,571,665	\$1,533,096	\$1,956,446	\$82,123

Cash and cash equivalents included demand deposits and time deposits totaling \$177.0 million as of June 30, 2014 and totaling \$120.7 million as of December 31, 2013.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
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Transfers of assets into or out of levels are recorded at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. There were no transfers between Levels 1 and 2 for the three and six months ended June 30, 2014 and 2013. The transfers into and out of Level 3 were based on the level of evidence available to corroborate significant observable inputs with market observable information.

Changes in Level 3 Financial Assets

The following table reconciles the beginning and ending balance for our Level 3 financial assets measured at fair value on a recurring basis for the three and six months ended June 30, 2014 and 2013 (\$ in thousands):

	Three Months Ended June 30, 2014				Total
	Commercial mortgage-backed securities	Residential mortgage-backed securities	Asset-backed securities	Reinsurance deposit assets	
Balance, beginning of period	\$ 1,815	\$ 1,125	\$ 264	\$ 81,004	\$ 84,208
Sales, maturities and paydowns	-	(1,794)	-	-	(1,794)
Total increase (decrease) in fair value included in net income	-	-	-	1,160	1,160
Total net unrealized gains (losses) included in other comprehensive income (loss)	103	1,857	(9)	-	1,951
Transfers into Level 3	-	3,911	838	-	4,749
Transfers out of Level 3	(1,918)	-	-	-	(1,918)
Balance, end of period	\$ -	\$ 5,099	\$ 1,093	\$ 82,164	\$ 88,356
Total increase (decrease) in fair value of the financial assets included in earnings for the period	\$ -	\$ -	\$ -	\$ 1,160	\$ 1,160

	Three Months Ended June 30, 2013				Total
	Commercial mortgage-backed securities	Residential mortgage-backed securities	Asset-backed securities	Reinsurance deposit assets	
Balance, beginning of period	\$ -	\$ 1,996	\$ 3,263	\$ 52,088	\$ 57,347
Purchases	-	-	-	25,000	25,000
Sales, maturities and paydowns	-	(126)	(29)	-	(155)
Total increase (decrease) in fair value included in net income	-	-	-	(140)	(140)
Total net unrealized gains (losses) included in other comprehensive income (loss)	-	176	96	-	272
Transfers into Level 3	-	4,049	312	-	4,361
Transfers out of Level 3	-	(1,575)	(2,385)	-	(3,960)
Balance, end of period	\$ -	\$ 4,520	\$ 1,257	\$ 76,948	\$ 82,725
	\$ -	\$ -	\$ -	\$ (140)	\$ (140)

Total increase (decrease) in fair value of
the financial assets included in earnings
for the period

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
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	Six Months Ended June 30, 2014				Total
	Commercial mortgage-backed securities	Residential mortgage-backed securities	Asset-backed securities	Reinsurance deposit assets	
Balance, beginning of period	\$-	\$ 593	\$ 2,227	\$79,303	\$82,123
Sales, maturities and paydowns	-	(2,432)	-	-	(2,432)
Total increase (decrease) in fair value included in net income	-	-	-	2,861	2,861
Total net unrealized gains (losses) included in other comprehensive income (loss)	103	2,234	1,038	-	3,375
Transfers into Level 3	1,815	4,704	838	-	7,357
Transfers out of Level 3	(1,918)	-	(3,010)	-	(4,928)
Balance, end of period	\$-	\$ 5,099	\$ 1,093	\$82,164	\$88,356
Total increase (decrease) in fair value of the financial assets included in earnings for the period	\$-	\$ -	\$ -	\$2,861	\$2,861

	Six Months Ended June 30, 2013				Total
	Commercial mortgage-backed securities	Residential mortgage-backed securities	Asset-backed securities	Reinsurance deposit assets	
Balance, beginning of period	\$524	\$ 5,374	\$ 1,036	\$50,693	\$57,627
Purchases	-	-	-	25,000	25,000
Sales, maturities and paydowns	-	(166)	(29)	-	(195)
Total increase (decrease) in fair value included in net income	-	-	-	1,255	1,255
Total net unrealized gains (losses) included in other comprehensive income (loss)	487	421	29	-	937
Transfers into Level 3	-	4,049	2,606	-	6,655
Transfers out of Level 3	(1,011)	(5,158)	(2,385)	-	(8,554)
Balance, end of period	\$-	\$ 4,520	\$ 1,257	\$76,948	\$82,725
Total increase (decrease) in fair value of the financial assets included in earnings for the period	\$-	\$ -	\$ -	\$1,255	\$1,255

Platinum Underwriters Holdings, Ltd. and Subsidiaries
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Quantitative Information of Level 3 Fair Value Measurements

The fair value measurements of our CMBS, non-agency RMBS and sub-prime ABS classified as Level 3 were based on unadjusted third party pricing sources.

The fair value measurements of our reinsurance deposit assets used significant unobservable inputs through the application of our own assumptions and internal valuation model and were classified as Level 3. The most significant unobservable inputs used in our internal valuation model are the estimated contract period remaining, credit spread above the risk-free rate and net losses and LAE ceded. The credit spread above the risk-free rate is determined by reviewing the credit spreads of fixed income securities through observable market data, as well as considering illiquidity and the structure of these contracts. The fair value of the reinsurance deposit assets may increase or decrease due to changes in the estimated contract period remaining, the credit spread and net losses and LAE ceded. Generally, a decrease in the credit spread or a decrease in net losses and LAE ceded would result in an increase in the fair value of the reinsurance deposit assets. Conversely, an increase in the credit spread or an increase in net losses and LAE ceded would result in a decrease in the fair value of the reinsurance deposit assets.

The following table sets forth the weighted average of the significant unobservable quantitative information used for the fair value measurement of our reinsurance deposit assets as of June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
Estimated contract period remaining	1,013 days	1,193 days
Credit spread above the risk-free rate	1.34%	1.58%
Net losses and LAE ceded inception-to-date	\$-	\$-

Other Financial Assets and Liabilities Not Carried at Fair Value

Accounting guidance requires note disclosure of the fair value of other financial assets and liabilities not carried at fair value, excluding balances related to insurance contracts.

The debt obligations on our consolidated balance sheets were recorded at cost with a carrying value of \$250.0 million as of June 30, 2014 and December 31, 2013, and had a fair value of \$286.0 million and \$271.5 million as of June 30, 2014 and December 31, 2013, respectively. The fair value measurements were based on observable inputs and therefore would be considered to be Level 2.

Our remaining financial assets and liabilities were generally carried at cost or amortized cost, which approximates fair value, as of June 30, 2014 and December 31, 2013. The fair value measurements were based on observable inputs and therefore would be considered to be Level 1 or Level 2.

4. Credit Facilities

Syndicated Credit Facility

On April 9, 2014, we entered into an amended and restated credit facility with various financial institutions (the "Syndicated Credit Facility"). The Syndicated Credit Facility is a four-year, \$300.0 million secured senior credit facility

available for letters of credit (“LOC”), with a sublimit of \$100.0 million for revolving borrowings. LOC and borrowings under the Syndicated Credit Facility are available for the working capital, liquidity and general corporate requirements of Platinum Holdings, Platinum Finance and our reinsurance subsidiaries. The Syndicated Credit Facility contains customary representations, warranties and covenants. Platinum Holdings and Platinum Finance have unconditionally guaranteed the obligations of each Platinum entity under the Syndicated Credit Facility.

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
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Other Letter of Credit Facilities

We have an LOC facility with a financial institution in the aggregate amount of \$100.0 million available for the issuance of LOC to support reinsurance obligations of our reinsurance subsidiaries. We also have the ability to request an uncommitted LOC facility of up to \$150.0 million subject to agreement with the lender.

Platinum Bermuda has an uncommitted LOC facility of \$125.0 million available for the issuance of LOC to support reinsurance obligations of Platinum Bermuda. There was \$17.1 million committed under this facility as of June 30, 2014. Platinum Holdings has unconditionally guaranteed the obligations of Platinum Bermuda under this facility.

We had no revolving borrowings under the Syndicated Credit Facility during the six months ended June 30, 2014 and the year ended December 31, 2013. The following table summarizes the outstanding LOC as of June 30, 2014 (\$ in thousands):

	Credit Capacity	Letters of Credit Issued (1)	Credit Capacity Remaining
Syndicated Credit Facility	\$300,000	\$77,742	\$222,258
Other LOC Facilities	375,000	39,781	335,219
Total	\$675,000	\$117,523	\$557,477

(1) Cash and cash equivalents of \$141.7 million were held to collateralize LOC issued as of June 30, 2014.

The credit capacity of \$675.0 million consists of \$417.1 million of committed capacity and \$257.9 million of uncommitted capacity. The Company also has the ability to increase the Syndicated Credit Facility and other LOC facilities by up to \$175.0 million subject to agreement with the lenders.

As of June 30, 2014, we were in compliance with all of the covenants under our credit facilities.

5. Shareholders' Equity

Accumulated Other Comprehensive Income

Accumulated other comprehensive income in the consolidated balance sheets relates to unrealized gains and losses on available-for-sale securities, net of deferred taxes.

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The following table reconciles the beginning and ending balances for accumulated other comprehensive income for the three and six months ended June 30, 2014 and 2013 (\$ in thousands):

	Three Months Ended June 30, 2014		
	Pre-tax	Tax	Net of tax
Balance, beginning of period	\$87,434	\$(12,875)	\$74,559
Other comprehensive income (loss) on available-for-sale securities before reclassifications:			
Change in net unrealized gains and losses on securities with other-than-temporary impairments recorded	(19)	-	(19)
Change in net unrealized gains and losses on all other securities	18,976	(2,245)	16,731
Total change in net unrealized gains and losses	18,957	(2,245)	16,712
Reclassifications to net income on available-for-sale securities:			
Net realized gains on investments	(56)	-	(56)
Net impairment losses on investments	136	-	136
Total reclassifications to net income	80	-	80
Other comprehensive income (loss)	19,037	(2,245)	16,792
Balance, end of period	\$106,471	\$(15,120)	\$91,351
	Three Months Ended June 30, 2013		
	Pre-tax	Tax	Net of tax
Balance, beginning of period	\$151,517	\$(20,414)	\$131,103
Other comprehensive income (loss) on available-for-sale securities before reclassifications:			
Change in net unrealized gains and losses on securities with other-than-temporary impairments recorded	(200)	-	(200)
Change in net unrealized gains and losses on all other securities	(64,027)	6,963	(57,064)
Total change in net unrealized gains and losses	(64,227)	6,963	(57,264)
Reclassifications to net income on available-for-sale securities:			
Net realized gains on investments	(12,968)	1,980	(10,988)
Net impairment losses on investments	1,516	-	1,516
Total reclassifications to net income	(11,452)	1,980	(9,472)
Other comprehensive income (loss)	(75,679)	8,943	