PLATINUM UNDERWRITERS HOLDINGS LTD
Form 10-Q
May 04, 2009

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, 2009

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 (State or other jurisdiction of incorporation or organization)	98-0416483 (I.R.S. Employer Identification No.)
The Belvedere Building 69 Pitts Bay Road Pembroke, Bermuda (Address of principal executive offices)	HM 08 (Zip Code)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 ___ 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

As of April 15, 2009, there were outstanding 51,163,377 common shares, par value $0.01 per share, of the registrant.

PLATINUM UNDERWRITERS HOLDINGS, LTD.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2009

TABLE OF CONTENTS

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, 2009	December 31, 2008
ASSETS		
Investments:		
Fixed maturity available-for-sale securities at fair value (amortized cost – $4,062,567 and $3,267,571, respectively)	$ 3,841,550	$ 3,063,804
Fixed maturity trading securities at fair value (amortized cost – $118,172 and $296,837, respectively)	125,402	305,237
Preferred stocks (cost – $1,879 and $3,087, respectively)	1,879	2,845
Short-term investments	36,728	75,036
Total investments	4,005,559	3,446,922
Cash and cash equivalents	309,082	813,017
Accrued investment income	32,817	29,041
Reinsurance premiums receivable	356,736	307,539
Reinsurance recoverable on ceded losses and loss adjustment expenses	9,833	12,413
Prepaid reinsurance premiums	8,387	10,897
Funds held by ceding companies	136,944	136,278
Deferred acquisition costs	47,828	50,719
Income tax recoverable	4,416	11,973
Deferred tax assets	70,140	71,444
Other assets	9,254	36,920
Total assets	$ 4,990,996	$ 4,927,163
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 2,494,997	$ 2,463,506
Unearned premiums	213,638	218,890
Debt obligations	250,000	250,000
Ceded premiums payable	1,714	2,918
Commissions payable	127,195	125,551
Other liabilities	73,993	56,901
Total liabilities	3,161,537	3,117,766
Shareholders' Equity		
Preferred shares, $.01 par value, 25,000,000 shares authorized, none and 5,750,000 shares issued and outstanding, respectively	–	57
Common shares, $.01 par value, 200,000,000 shares authorized, 51,163,377 and 47,482,161 shares issued and outstanding, respectively	512	475
Additional paid-in capital	1,056,434	1,114,135
Accumulated other comprehensive loss	(204,807)	(188,987)
Retained earnings	977,320	883,717
Total shareholders' equity	1,829,459	1,809,397

Total liabilities and shareholders' equity	$ 4,990,996	$ 4,927,163

See accompanying Notes to the Consolidated Financial Statements.

- 1 -

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Operations (Unaudited) and
Consolidated Statements of Comprehensive Income (Unaudited)
For the Three Months Ended March 31, 2009 and 2008
($ in thousands, except per share data)

	2009	2008
Revenue:		
Net premiums earned	$ 247,752	$ 301,851
Net investment income	34,246	49,062
Net realized investment gains	20,570	2,972
Other income (expense)	232	(96)
Total revenue	302,800	353,789
Expenses:		
Net losses and loss adjustment expenses	144,164	160,203
Net acquisition expenses	40,156	60,542
Net changes in fair value of derivatives	2,417	810
Total other-than-temporary impairment losses	12,411	–
Portion of impairment losses recognized in other comprehensive income (loss)	(9,003)	–
Net impairment losses	3,408	–
Operating expenses	20,868	21,690
Net foreign currency exchange (gains) losses	996	(4,869)
Interest expense	4,755	4,750
Total expenses	216,764	243,126
Income before income tax expense	86,036	110,663
Income tax expense	1,114	5,492
Net income	84,922	105,171
Preferred dividends	1,301	2,602
Net income attributable to common shareholders	$ 83,621	$ 102,569
Earnings per common share:		
Basic earnings per common share	$ 1.69	$ 1.97
Diluted earnings per common share	$ 1.58	$ 1.76
Comprehensive income:		
Net income	$ 84,922	$ 105,171
Other comprehensive loss:		
Net change in unrealized gains and losses on available-for-sale securities, net of deferred tax	(1,576)	(4,121)
Comprehensive income	$ 83,346	$ 101,050
Shareholder dividends:		
Preferred shareholder dividends declared	$ 2,602	$ 2,602
Dividends declared per preferred share	0.45	0.45
Common shareholder dividends declared	4,262	4,154

Dividends declared per common share	$	0.08	$	0.08

See accompanying Notes to the Consolidated Financial Statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
For the Three Months Ended March 31, 2009 and 2008
($ in thousands)

	2009	2008
Preferred shares:		
Balances at beginning of period	$ 57	$ 57
Conversion of preferred shares	(57)	–
Balances at end of period	–	57
Common shares:		
Balances at beginning of period	475	538
Issuance of common shares	1	1
Purchase of common shares	(23)	(50)
Settlement of equity awards	2	–
Conversion of preferred shares	57	–
Balances at end of period	512	489
Additional paid-in capital:		
Balances at beginning of period	1,114,135	1,338,466
Issuance of common shares	247	1,647
Purchase of common shares	(60,068)	(167,892)
Share based compensation	3,144	3,027
Settlement of equity awards	(1,024)	(296)
Balances at end of period	1,056,434	1,174,952
Accumulated other comprehensive loss:		
Balances at beginning of period	(188,987)	(24,339)
Cumulative effect of accounting change, net of deferred tax	(14,244)	–
Portion of other-than-temporary impairment losses recognized in other comprehensive income (loss)	(9,003)	–
Net change in unrealized gains and losses on available-for-sale securities, net of deferred tax	7,427	(4,121)
Balances at end of period	(204,807)	(28,460)
Retained earnings:		
Balances at beginning of period	883,717	683,655
Cumulative effect of accounting change, net of deferred tax	14,244	–
Net income	84,922	105,171
Preferred share dividends	(1,301)	(2,602)
Common share dividends	(4,262)	(4,154)
Balances at end of period	977,320	782,070
Total shareholders' equity	$ 1,829,459	$ 1,929,108

See accompanying Notes to the Consolidated Financial Statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2009 and 2008
($ in thousands)

	2009	2008
Operating Activities:		
Net income	$ 84,922	$ 105,171
Adjustments to reconcile net income to cash used in operations:		
Depreciation and amortization	7,663	2,136
Net realized investment (gains) losses	(20,570)	(45)
Net impairment losses	3,408	–
Net foreign currency exchange (gains) losses	996	(4,869)
Share based compensation	3,144	3,053
Deferred income tax benefit (expense)	1,633	(2,625)
Trading securities activities, net	204,390	7,554
Changes in assets and liabilities:		
(Increase) decrease in accrued investment income	(3,661)	5,599
Increase in reinsurance premiums receivable	(49,450)	(55,773)
(Increase) decrease in funds held by ceding companies	(792)	581
Decrease in deferred acquisition costs	2,805	2,424
Decrease in net current income tax accounts	6,503	5,993
Increase in net unpaid losses and loss adjustment expenses	38,077	46,339
Decrease in net unearned premiums	(2,480)	(4,427)
Decrease in ceded premiums payable	(1,114)	(4,429)
Increase in commissions payable	1,837	11,704
Changes in other assets and liabilities	(7,750)	(16,064)
Other net	33	373
Net cash provided by operating activities	269,594	102,695
Investing Activities:		
Proceeds from sale of available-for-sale securities	128,941	6,177
Proceeds from maturity or paydown of available-for-sale securities	186,916	442,368
Acquisition of available-for-sale securities	(1,044,698)	(299,553)
Acquisition of trading securities	(14,525)	–
Net change in short-term investments	38,585	(121,064)
Net cash provided by (used in) investing activities	(704,781)	27,928
Financing Activities:		
Dividends paid to preferred shareholders	(2,602)	(2,602)
Dividends paid to common shareholders	(4,262)	(4,154)
Purchase of common shares	(60,091)	(167,941)
Net cash used in financing activities	(66,955)	(174,697)
Effect of foreign currency exchange rate changes on cash	(1,793)	2,139
Net decrease in cash and cash equivalents	(503,935)	(41,935)
Cash and cash equivalents at beginning of period	813,017	1,076,279

Cash and cash equivalents at end of period	$	309,082	$	1,034,344
Supplemental disclosures of cash flow information:				
Income taxes paid	$	(7,122)	$	2,125
Interest paid	$	–	$	–

See accompanying Notes to the Consolidated Financial Statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements (Unaudited)
For the Three Months Ended March 31, 2009 and 2008

1. Basis of Presentation

Platinum Underwriters Holdings, Ltd. (“Platinum Holdings”) is a Bermuda holding company organized in 2002. Platinum Holdings and its consolidated subsidiaries (collectively, the “Company”) operate through two licensed reinsurance subsidiaries: Platinum Underwriters Bermuda, Ltd. (“Platinum Bermuda”) and Platinum Underwriters Reinsurance, Inc. (“Platinum US”). The terms “we,” “us,” and “our” also refer to Platinum Holdings and its consolidated subsidiaries, unless the context otherwise indicates. Through December 31, 2006, we also underwrote business through Platinum Re (UK) Limited (“Platinum UK”), our other licensed reinsurance subsidiary. In 2007, Platinum UK ceased underwriting reinsurance business. We provide property and marine, casualty and finite risk reinsurance coverages, through reinsurance intermediaries, to a diverse clientele of insurers and select reinsurers on a worldwide basis.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include the accounts of Platinum Holdings and its consolidated subsidiaries, including Platinum Bermuda, Platinum US, Platinum UK, Platinum Underwriters Finance, Inc. (“Platinum Finance”), Platinum Regency Holdings (“Platinum Regency”), Platinum Administrative Services, Inc. and Platinum UK Services Company Limited. All material inter-company transactions have been eliminated in preparing these consolidated financial statements. The consolidated financial statements included in this report as of and for the three months ended March 31, 2009 and 2008 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, 2008.

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 could materially differ from these estimates. The results of operations for any interim period are not necessarily indicative of results for the full year.

Recently Issued Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (the “FASB”) issued FASB Staff Position No. FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” (“FSP 115-2”). FSP 115-2 amends previous guidance with respect to other-than-temporary impairment for debt securities. The objective of the FASB was to make the guidance more operational and to improve presentation and disclosure of other-than-temporary impairments. Under FSP 115-2, if we intend to sell a debt security or it is more likely than not that we will be required to sell the debt security before its anticipated recovery, we will recognize the other-than-temporary impairment in the consolidated statement of operations equal to the entire difference between the investment’s amortized cost basis and its fair value at the balance sheet date. For debt securities, we must also determine that the present value of expected future cash flows from a debt security are greater than the amortized cost of the security, otherwise a credit loss has occurred. If a credit loss exists, the impairment is separated into: (a) the amount of the total other-than-temporary impairment related to the credit loss, which is recognized in the consolidated statement of operations and (b) the amount of the total impairment related to all other factors, which is recognized in other comprehensive income, net of applicable taxes. FSP 115-2 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted

FSP 115-2 as of March 31, 2009.

Under FSP 115-2, if we do not intend to sell a debt security held at the beginning of the period of adoption and it is more likely than not that will not be required to sell the security before recovery of its amortized cost basis, then we recognize the cumulative effect of initially applying FSP 115-2 as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. Upon adoption of FSP 115-2, we recorded a cumulative effect adjustment of $14,244,000, net of deferred tax, which decreased accumulated other comprehensive income and increased retained earnings as of January 1, 2009. Also upon adoption of FSP 115-2, we increased the amortized cost of certain available-for-sale securities by $15,103,000 and decreased deferred tax assets by $858,000. The adjustment to the amortized cost of these securities represents other-than-temporary impairments not related to credit and recognized in earnings prior to the adoption of FSP 115-2. The adoption did not have any impact on our shareholders' equity and comprehensive income. The effect of FSP 115-2 in 2009 was to increase net income by recognizing the amount of the total other-than-temporary impairment not related to the credit loss in other comprehensive income. The amount of other-than-temporary impairments not related to credit losses recognized in other comprehensive income for the three months ended March 31, 2009 was $9,003,000.

In April 2009, the FASB issued FASB Staff Position Statement of Financial Accounting Standards No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP 157-4"), which provides additional guidance for estimating fair value when the volume and level of activity for an asset or liability has significantly decreased and emphasizes that the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009 and not later than the adoption of FSP 115-2. We adopted FSP 157-4 as of March 31, 2009.

In April 2009, the FASB issued FASB Staff Position Statement of Financial Accounting Standards No. 107-1 and Accounting Principles Board Opinion 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (“FSP 107-1”). FSP 107-1 increases the frequency of the disclosures about fair value with the objective of improving the transparency and quality of information provided to users of financial statements. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted FSP 107-1 as of March 31, 2009.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, “Disclosure about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 amends and expands the disclosure requirements in Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” about an entity’s derivative and hedging activities and how these activities affect an entity’s financial position, financial performance and cash flows, thereby improving the transparency of financial reporting. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS 161 did not have any material impact on the presentation of our consolidated financial statements.

2. Investments

Available-for-sale Securities

The following table sets forth our fixed maturity available-for-sale securities and preferred stocks as of March 31, 2009 ($ in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government	$ 4,096	469	–	$ 4,565
U.S. Government agencies	709,916	20,823	80	730,659
Corporate bonds	808,890	8,588	58,168	759,310
Commercial mortgage-backed securities	476,795	314	114,497	362,612
Residential mortgage-backed securities	1,087,364	20,928	77,029	1,031,263
Asset-backed securities	154,682	1,165	33,267	122,580
Municipal bonds	542,100	11,767	2,910	550,957
Non-U.S. governments	278,724	2,429	1,549	279,604
Total fixed maturity available-for-sale securities	4,062,567	66,483	287,500	3,841,550
Preferred stocks	1,879	–	–	1,879
Total available-for-sale securities	$ 4,064,446	66,483	287,500	$ 3,843,429

U.S. Government agencies include securities issued by financial institutions under the Temporary Liquidity Guarantee Program guaranteed by the Federal Deposit Insurance Corporation, the Federal National Mortgage Association, and other U.S. Government agencies.

Unrealized Gains and Losses

Net change in unrealized investment gains and losses on our available-for-sale securities for the quarter ended March 31, 2009 was as follows ($ in thousands):

Available for sale securities	$ (17,008)
Less deferred tax	1,188

Cumulative effect of accounting change, net of deferred tax		14,244
Net change in unrealized gains and losses	$	(1,576)

Gross unrealized gains and losses on available-for-sale securities as of March 31, 2009 were $66,483,000 and $287,500,000, respectively. As of March 31, 2009, the single largest unrealized loss was a sub-prime asset-backed security with an amortized cost of $10,088,000 and an unrealized loss of $8,470,000. As of March 31, 2009, the single largest unrealized loss within our mortgage-backed security portfolio was $7,896,000 related to a commercial mortgage-backed security with an amortized cost of $15,040,000. Investment holdings within our corporate bond portfolio were diversified across approximately 30 industry sectors and across many individual issuers and issues within each sector. As of March 31, 2009, the single largest unrealized loss within our corporate bond portfolio was $4,385,000 related to a security with an amortized cost of $7,394,000.

The following table sets forth our unrealized losses on 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, 2009 ($ in thousands):

	Fair Value	Unrealized Loss
Less than twelve months:		
U.S. government agencies	$ 10,221	80
Corporate bonds	234,334	14,718
Commercial mortgage-backed securities	242,097	67,842
Residential mortgage-backed securities	63,936	29,656
Asset-backed securities	48,226	7,559
Municipal bonds	132,661	2,304
Non-U.S. governments	14,491	202
Total	$ 745,966	122,361
Twelve months or more:		
U.S. government agencies	$ –	–
Corporate bonds	155,308	43,450
Commercial mortgage-backed securities	114,001	46,655
Residential mortgage-backed securities	51,409	47,373
Asset-backed securities	14,178	25,708
Municipal bonds	16,785	606
Non-U.S. governments	16,075	1,347
Total	$ 367,756	165,139
Total unrealized losses:		
U.S. government agencies	$ 10,221	80
Corporate bonds	389,642	58,168
Commercial mortgage-backed securities	356,098	114,497
Residential mortgage-backed securities	115,345	77,029
Asset-backed securities	62,404	33,267
Municipal bonds	149,446	2,910
Non-U.S. governments	30,566	1,549
Total	$ 1,113,722	287,500

We routinely review our available-for-sale investments to determine whether unrealized losses represent temporary changes in fair value or were the result of “other-than-temporary impairments.” The process of determining whether a security is other-than-temporarily impaired requires judgment and involves analyzing many factors. These factors include, but are not limited to, the overall financial condition of the issuer, the length and magnitude of an unrealized loss, specific credit events, the collateral structure and the credit support that may be applicable. If the present value of expected future cash flows from a debt security are less than the amortized cost of the security, then a credit loss has occurred. If a credit loss exists, the impairment is determined as: (a) the amount related to the credit loss, which is recognized in the consolidated statement of operations and (b) the amount related to all other factors, which is recognized in other comprehensive income, net of applicable taxes and is calculated as amortized cost less fair value plus credit losses.

Our structured securities, consisting of commercial mortgage-backed, residential mortgage-backed and asset-backed securities, represent our largest unrealized loss position as of March 31, 2009. Our non-agency residential mortgage-backed securities include securities with underlying prime, sub-prime and Alt-A mortgages. We analyze our residential mortgage-backed securities 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 to the break-even loss, which represents the point at which our tranche begins to experience losses. We evaluate projected cash flows as well as other factors in order to determine if credit impairment has occurred. For the three months ended March 31, 2009, we recorded $1,425,000 of credit impairment charges related to non-agency residential mortgage-backed securities and $140,000 related to sub-prime asset-backed securities. Our commercial mortgage-backed securities are evaluated on a periodic basis using analytical techniques and various metrics including, but not limited to, the level of subordination, debt-service-coverage ratios, loan-to-value ratios, delinquencies, defaults and foreclosures. For the three months ended March 31, 2009, we recorded $635,000 of credit impairment charges related to commercial mortgage-backed securities.

The following table sets forth a summary of the credit losses recognized on our available-for-sale debt securities ($ in thousands):

Beginning balance at January 1, 2009	$	–
Cumulative effect of accounting change		2,300
Credit losses on securities not previously impaired		945
Additional credit losses on previously impaired securities		1,255
Ending balance at March 31, 2009		4,500

In evaluating the potential for other-than-temporary impairment, we consider our intent to sell a security and whether it is more likely than not that we may be required to sell a security before a sufficient period of time for the value to recover the unrealized loss. Our intent to sell a security is based, in part, on whether we expect our current and anticipated future positive net cash flows from operations, as well as proceeds from maturing securities, to generate sufficient liquidity to meet our obligations. If we determine that we intend to sell a security, then the unrealized loss related to such security, representing the difference between the security's amortized cost and its fair value, is recognized in the consolidated statement of operations.

We evaluate our holdings of perpetual preferred stocks by individual issuer and determine if we can forecast a reasonable period of time for the securities to recover the unrealized loss position. If we are unable to forecast a reasonable period of time sufficient for our perpetual preferred stocks to recover, an impairment is recorded in the consolidated statement of operations for the entire unrealized loss. We recorded other-than-temporary impairment charges of $1,208,000 on our holdings of perpetual preferred stocks for the three months ended March 31, 2009.

Overall, we believe that the gross unrealized loss in our available-for-sale portfolio represents temporary declines due primarily to the loss of liquidity in the financial markets and that the net unrealized losses on our available-for-sale securities are not necessarily predictive of ultimate performance. We also believe that the provisions we have made for other-than-temporary impairments are adequate and that we have the ability and intent to hold our securities for a sufficient period of time to recover the value, which may be until maturity if necessary. Economic conditions may deteriorate more than expected and may adversely affect the expected cash flows of our securities, which in turn may lead to other-than-temporary impairments recorded in future periods.

Trading Securities

The following table sets forth the fair value of our fixed maturity trading securities as of March 31, 2009 ($ in thousands):

Insurance-linked securities	$	14,530
Non-U.S. dollar denominated securities:		
Corporate bonds		3,244
Non-U.S. governments		107,628
Total trading securities	$	125,402

We elected to apply the fair value measurement attributes of SFAS 159 to our investments in insurance-linked securities. 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 SFAS 159. We have included insurance-linked securities at a fair value of $14,530,000 in our fixed maturity trading securities on the consolidated balance sheets, and have recorded an unfavorable change in the mark-to-market of $3,000 in net realized investment gains in the consolidated statement of operations. These securities are included in investing activities in the consolidated statement of cash flows.

Net realized investment gains include losses for mark-to-market adjustments of $1,199,000 on trading securities for the three months ended March 31, 2009.

Net Investment Income

The following table sets forth our net investment income for the three months ended March 31, 2009 ($ in thousands):

Fixed maturity securities	$	33,566
Short-term investments and cash and cash equivalents		976
Funds held		872
Subtotal		35,414
Less investment expenses		1,168
Net investment income	$	34,246

Net Realized Investment Gains and Losses

Proceeds from sales, maturities and calls of fixed maturity available-for-sale securities were $315,857,000 for the three months ended March 31, 2009. Proceeds from sales, maturities and calls of fixed maturity trading securities were $327,861,000 for the three months ended March 31, 2009. There were no sales of preferred stocks for the three months ended March 31, 2009.

The following table sets forth our net realized investment gains and losses for the three months ended March 31, 2009 ($ in thousands):

Net gains (losses) on the sale of investments:	
Gross realized gains	$ 22,162
Gross realized losses	(393)
Subtotal	21,769
Mark-to-market adjustments on trading securities	(1,199)
Net realized investment gains	$ 20,570

Maturities

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, 2009 ($ in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 192,590	$ 193,137
Due from one to five years	1,510,665	1,531,472
Due from five to ten years	465,931	460,675
Due in ten or more years	292,712	265,212
Mortgage-backed and asset-backed securities	1,718,841	1,516,456
Total	$ 4,180,739	$ 3,966,952

3. Fair Value Measurements

We consider prices for actively traded government securities and exchange traded preferred stocks to be based on quoted prices in active markets for identical assets (Level 1 as defined by Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“SFAS 157”)). The fair values of our other fixed maturity securities, which generally include mortgage-backed and asset-backed securities, corporate bonds, municipal bonds, and bonds issued or guaranteed by governmental entities, are based on prices obtained from independent pricing vendors, index providers, or broker-dealers using observable inputs (Level 2 as defined by SFAS 157). The observable inputs used in standard market valuation pricing models may include, but are not limited to, credit ratings, interest rates and yield curves at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates. The fair values of our derivative instruments, which are included in other liabilities in the consolidated balance sheet, are determined by management primarily using unobservable inputs through the application of our own assumptions and internal valuation pricing models (Level 3 as defined by SFAS 157).

The following table presents the fair value measurement levels for all assets and liabilities which the Company has recorded at fair value as of March 31, 2009 ($ in thousands):

		Fair Value Measurement Using:		
	Total	Level 1	Level 2	Level 3
Financial assets:				
U.S. government	$ 4,565	4,565	–	$ –
U.S. government agencies	730,659	–	730,659	–
Corporate	762,554	13,060	749,494	–
Commercial mortgage-backed securities	362,612	–	362,612	–
Residential mortgage-backed securities	1,031,263	–	1,031,263	–
Asset-backed securities	122,581	–	122,581	–
Municipals	550,957	–	550,957	–
Non-U.S. governments	387,232	32,487	354,745	–
Insurance-linked securities	14,530	–	14,530	–
Preferred stocks	1,879	1,879	–	–
Short-term investments	36,728	–	36,728	–
Total	$ 4,005,560	51,991	3,953,569	$ –
Financial liabilities:				