

PLATINUM UNDERWRITERS HOLDINGS LTD
Form 10-Q
October 25, 2012

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

FORM 10-Q

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

OR

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

Commission File Number: 001-31341

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

Bermuda
(State or other jurisdiction of
incorporation or organization)

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

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

HM 08
(Zip Code)

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

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

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

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

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to submit and post such files). Yes No

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

| | | |
|-------------------------|---|---------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer |
| Non-accelerated filer | (Do not check if a smaller reporting company) | Smaller reporting company |

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

Yes No

The registrant had 32,781,828 common shares, par value \$0.01 per share, outstanding as of October 18, 2012.

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

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PART I - FINANCIAL INFORMATION

ITEM FINANCIAL STATEMENTS

1.

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

| | (Unaudited) | |
|--|--------------------------|-------------------------|
| | September 30, 2012 | December 31, 2011 |
| ASSETS | | |
| Investments: | | |
| Fixed maturity available-for-sale securities at fair value (amortized cost - \$2,002,622 and \$2,494,710, respectively) | \$2,177,038 | \$2,663,574 |
| Fixed maturity trading securities at fair value (amortized cost - \$106,578 and \$115,156, respectively) | 116,056 | 125,126 |
| Short-term investments | 165,741 | 588,834 |
| Total investments | 2,458,835 | 3,377,534 |
| Cash and cash equivalents | 1,662,679 | 792,510 |
| Accrued investment income | 23,856 | 29,440 |
| Reinsurance premiums receivable | 150,775 | 159,387 |
| Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses | 4,273 | 6,302 |
| Prepaid reinsurance premiums | 62 | 8,360 |
| Funds held by ceding companies | 113,310 | 94,546 |
| Deferred acquisition costs | 29,189 | 28,779 |
| Deferred tax assets | 25,669 | 31,613 |
| Other assets | 24,274 | 23,140 |
| Total assets | \$4,492,922 | \$4,551,611 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | | |
| Unpaid losses and loss adjustment expenses | \$2,160,154 | \$2,389,614 |
| Unearned premiums | 122,150 | 121,164 |
| Debt obligations | 250,000 | 250,000 |
| Commissions payable | 67,489 | 62,773 |
| Other liabilities | 103,183 | 37,201 |
| Total liabilities | \$2,702,976 | \$2,860,752 |
| Shareholders' Equity | | |
| Common shares, \$0.01 par value, 200,000,000 shares authorized, 32,781,828 and 35,526,400 shares issued and outstanding, respectively | \$ 328 | \$355 |
| Additional paid-in capital | 211,546 | 313,730 |
| Accumulated other comprehensive income | 150,387 | 146,635 |
| Retained earnings | 1,427,685 | 1,230,139 |
| Total shareholders' equity | \$1,789,946 | \$1,690,859 |

| | | |
|--|-------------|-------------|
| Total liabilities and shareholders' equity | \$4,492,922 | \$4,551,611 |
|--|-------------|-------------|

See accompanying notes to consolidated financial statements.

- 1 -

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

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------------|-------------------|---------------------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Revenue: | | | | |
| Net premiums earned | \$138,588 | \$166,813 | \$421,875 | \$522,130 |
| Net investment income | 23,209 | 29,762 | 77,916 | 96,105 |
| Net realized gains on investments | 22,982 | 7,498 | 70,299 | 3,216 |
| Total other-than-temporary impairments | 354 | (8,315) | 263 | (7,815) |
| Portion of impairment losses recognized in other comprehensive income | (1,053) | 3,864 | (3,145) | 191 |
| Net impairment losses on investments | (699) | (4,451) | (2,882) | (7,624) |
| Other income (expense) | (96) | (198) | (766) | 838 |
| Total revenue | 183,984 | 199,424 | 566,442 | 614,665 |
| Expenses: | | | | |
| Net losses and loss adjustment expenses | 45,117 | 201,453 | 191,430 | 680,405 |
| Net acquisition expenses | 26,168 | 30,208 | 87,025 | 98,273 |
| Net changes in fair value of derivatives | - | 4,546 | - | 5,294 |
| Operating expenses | 19,966 | 14,755 | 56,645 | 49,011 |
| Net foreign currency exchange losses (gains) | 541 | (982) | 763 | (179) |
| Interest expense | 4,775 | 4,769 | 14,321 | 14,302 |
| Total expenses | 96,567 | 254,749 | 350,184 | 847,106 |
| Income (loss) before income taxes | 87,417 | (55,325) | 216,258 | (232,441) |
| Income tax expense (benefit) | 2,553 | (1,790) | 10,575 | (1,313) |
| Net income (loss) | \$84,864 | \$(53,535) | \$205,683 | \$(231,128) |
| Earnings (loss) per common share: | | | | |
| Basic earnings (loss) per common share | \$2.56 | \$(1.43) | \$6.02 | \$(6.18) |
| Diluted earnings (loss) per common share | \$2.54 | \$(1.43) | \$5.98 | \$(6.18) |
| Shareholder dividends: | | | | |
| Common shareholder dividends declared | \$2,630 | \$2,975 | \$8,137 | \$8,908 |
| Dividends declared per common share | \$0.08 | \$0.08 | \$0.24 | \$0.24 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------------|-------------------|--------------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Net income (loss) | \$84,864 | \$(53,535) | \$205,683 | \$(231,128) |
| Other comprehensive income, before deferred tax: | | | | |
| Net change in unrealized gains and losses on available-for-sale securities arising during the period | 24,565 | 90,998 | 73,567 | 161,751 |
| Reclassification adjustments: | | | | |
| Net realized gains on available-for-sale investments | (22,710) | (3,890) | (70,607) | (854) |
| Net impairment losses on investments | 699 | 4,451 | 2,882 | 7,624 |
| Other comprehensive income, before deferred tax | 2,554 | 91,559 | 5,842 | 168,521 |
| Deferred tax on components of other comprehensive income: | | | | |
| Net change in unrealized gains and losses on available-for-sale securities arising during the period | (3,162) | (5,662) | (6,045) | (16,105) |
| Reclassification adjustments: | | | | |
| Net realized gains on available-for-sale investments | 2,466 | 1,311 | 4,220 | (607) |
| Net impairment losses on investments | (33) | (404) | (265) | (483) |
| Deferred income tax expense | (729) | (4,755) | (2,090) | (17,195) |
| Other comprehensive income, net of deferred tax: | | | | |
| Net change in unrealized gains and losses on available-for-sale securities arising during the period | 21,403 | 85,336 | 67,522 | 145,646 |
| Reclassification adjustments: | | | | |
| Net realized gains on available-for-sale investments | (20,244) | (2,579) | (66,387) | (1,461) |
| Net impairment losses on investments | 666 | 4,047 | 2,617 | 7,141 |
| Other comprehensive income, net of deferred tax | 1,825 | 86,804 | 3,752 | 151,326 |
| Comprehensive income (loss) | \$86,689 | \$33,269 | \$209,435 | \$(79,802) |

See accompanying notes to consolidated financial statements.

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

| | 2012 | 2011 |
|--|-------------|-------------|
| Common shares: | | |
| Balances at beginning of period | \$355 | \$377 |
| Exercise of common share options | 1 | - |
| Issuance (cancellation) of common shares | - | - |
| Settlement of equity awards | 2 | 4 |
| Repurchase of common shares | (30) | (8) |
| Balances at end of period | 328 | 373 |
| Additional paid-in capital: | | |
| Balances at beginning of period | 313,730 | 453,619 |
| Exercise of common share options | 2,554 | 1,222 |
| Issuance (cancellation) of common shares | (176) | 2 |
| Settlement of equity awards | (1,128) | (2,763) |
| Repurchase of common shares | (109,603) | (33,899) |
| Purchase of common share options | - | (47,900) |
| Share based compensation | 5,802 | 3,127 |
| Income tax benefit from share based compensation | 367 | 382 |
| Balances at end of period | 211,546 | 373,790 |
| Accumulated other comprehensive income (loss): | | |
| Balances at beginning of period | 146,635 | (24,488) |
| Net change in unrealized gains and losses on available-for-sale securities, net of deferred taxes: | | |
| Change in unrealized gains and losses | 794 | 151,012 |
| Non-credit component of impairment losses | 2,958 | 314 |
| Balances at end of period | 150,387 | 126,838 |
| Retained earnings: | | |
| Balances at beginning of period | 1,230,139 | 1,465,947 |
| Net income (loss) | 205,683 | (231,128) |
| Common share dividends | (8,137) | (8,908) |
| Balances at end of period | 1,427,685 | 1,225,911 |
| Total shareholders' equity | \$1,789,946 | \$1,726,912 |

See accompanying notes to consolidated financial statements.

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

| | 2012 | 2011 |
|--|------------|--------------|
| Operating Activities: | | |
| Net income (loss) | \$205,683 | \$(231,128) |
| Adjustments to reconcile net income (loss) to cash provided by (used in) operations: | | |
| Depreciation and amortization | 4,555 | 3,031 |
| Net realized gains on investments | (70,299) | (3,216) |
| Net impairment losses on investments | 2,882 | 7,624 |
| Net foreign currency exchange losses (gains) | 763 | (179) |
| Share-based compensation | 6,805 | 3,127 |
| Deferred income tax expense (benefit) | 3,853 | (1,088) |
| Net fixed maturity trading securities activities | 9,877 | 251 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in accrued investment income | 5,761 | (1,601) |
| Decrease in reinsurance premiums receivable | 8,577 | 11,092 |
| Increase in funds held by ceding companies | (18,790) | (8,529) |
| Decrease (increase) in deferred acquisition costs | (403) | 5,157 |
| Increase (decrease) in net unpaid and paid losses and loss adjustment expenses | (239,970) | 222,717 |
| Increase (decrease) in net unearned premiums | 9,224 | (24,334) |
| Increase (decrease) in commissions payable | 4,713 | (3,042) |
| Changes in other assets and liabilities | 47,800 | 58,264 |
| Net cash provided by (used in) operating activities | (18,969) | 38,146 |
| Investing Activities: | | |
| Proceeds from the sales of: | | |
| Fixed maturity available-for-sale securities | 558,848 | 466,759 |
| Fixed maturity trading securities | - | 20,413 |
| Short-term investments | 36,581 | 27,995 |
| Investment-related derivatives | - | 3,094 |
| Proceeds from the maturities or paydowns of: | | |
| Fixed maturity available-for-sale securities | 213,503 | 100,264 |
| Fixed maturity trading securities | - | 5,000 |
| Short-term investments | 663,011 | 234,946 |
| Acquisitions of: | | |
| Fixed maturity available-for-sale securities | (202,729) | (35,783) |
| Short-term investments | (266,723) | (630,203) |
| Investment-related derivatives | - | (9,548) |
| Net cash provided by (used in) investing activities | 1,002,491 | 182,937 |
| Financing Activities: | | |
| Dividends paid to common shareholders | (8,137) | (8,908) |
| Repurchase of common shares | (109,633) | (33,907) |
| Purchase of common share options | - | (47,900) |
| Proceeds from exercise of common share options | 2,554 | 1,223 |
| Net cash provided by (used in) financing activities | (115,216) | (89,492) |

| | | |
|--|-------------|-------------|
| Effect of foreign currency exchange rate changes on cash | 1,863 | 7,837 |
| Net increase (decrease) in cash and cash equivalents | 870,169 | 139,428 |
| Cash and cash equivalents at beginning of period | 792,510 | 987,877 |
| Cash and cash equivalents at end of period | \$1,662,679 | \$1,127,305 |

Supplemental disclosures of cash flow information:

| | | |
|-------------------|----------|---------|
| Income taxes paid | \$14,508 | \$749 |
| 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 Nine Months Ended September 30, 2012 and 2011

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation and Consolidation

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

Platinum Holdings and its consolidated subsidiaries (collectively, the “Company”) include Platinum Holdings, Platinum Underwriters Bermuda, Ltd. (“Platinum Bermuda”), Platinum Underwriters Reinsurance, Inc. (“Platinum US”), Platinum 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 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 included in this report as of September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011 are unaudited and include all adjustments consisting of normal recurring items that management considers necessary for a fair presentation under U.S. GAAP. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

Recently Issued Accounting Standards

In December 2011, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2011-12, “Comprehensive Income: Deferral of the Effective Date for Amendments to the Presentation of

Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05” (“ASU 2011-12”). ASU 2011-12 defers the presentation on the face of the financial statements of the effects of reclassifications of the components of net income and other comprehensive income out of accumulated other comprehensive income for all periods. None of the other requirements of ASU 2011-05, “Presentation of Comprehensive Income” (“ASU 2011-05”) issued in June 2011 are affected by ASU 2011-12. ASU 2011-05 requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. Under the continuous statement approach, the statement would include the components and total of net income, the components and total of other comprehensive income and the total of comprehensive income. Under the two statement approach, the first statement would include the components and total of net income and the second statement would include the components and total of other comprehensive income and the total of comprehensive income. ASU 2011-05 does not change the items that must be reported in other comprehensive income. ASU 2011-05 is effective retrospectively for interim and annual periods beginning after December 15, 2011. We adopted the guidance as of January 1, 2012 and included a separate statement of comprehensive income (loss) in our financial statements. The separate statement of comprehensive income (loss) incorporated the effects of reclassification adjustments recognized in our statement of operations.

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

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

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

2. Investments

Fixed Maturity Available-for-sale Securities

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

| | Amortized Cost | Included in Accumulated Other Comprehensive Income | | Fair Value | Non-credit portion of OTTI (1) |
|---|--------------------|--|-------------------------------|--------------------|--------------------------------------|
| | | Gross Unrealized Gains | Gross Unrealized Losses | | |
| September 30, 2012: | | | | | |
| U.S. Government | \$4,650 | \$341 | \$- | \$4,991 | \$- |
| U.S. Government agencies | 10,003 | 287 | - | 10,290 | - |
| Municipal bonds | 1,141,058 | 140,734 | 8 | 1,281,784 | - |
| Non-U.S. governments | 92,953 | 1,829 | 21 | 94,761 | - |
| Corporate bonds | 300,943 | 21,004 | 526 | 321,421 | - |
| Commercial mortgage-backed securities | 163,169 | 14,113 | 633 | 176,649 | 160 |
| Residential mortgage-backed securities | 267,873 | 3,149 | 5,471 | 265,551 | 4,171 |
| Asset-backed securities | 21,973 | 791 | 1,173 | 21,591 | 1,173 |
| Total fixed maturity available-for-sale securities | \$2,002,622 | \$182,248 | \$7,832 | \$2,177,038 | \$5,504 |
| December 31, 2011: | | | | | |
| U.S. Government | \$4,702 | \$381 | \$- | \$5,083 | \$- |
| U.S. Government agencies | 100,000 | 259 | - | 100,259 | - |
| Municipal bonds | 1,510,658 | 150,280 | 178 | 1,660,760 | - |
| Non-U.S. governments | 69,992 | 1,929 | 655 | 71,266 | - |
| Corporate bonds | 329,218 | 21,093 | 763 | 349,548 | - |
| Commercial mortgage-backed securities | 195,309 | 11,884 | 2,584 | 204,609 | 196 |
| Residential mortgage-backed securities | 261,187 | 2,866 | 12,426 | 251,627 | 8,397 |
| Asset-backed securities | 23,644 | 489 | 3,711 | 20,422 | 2,821 |
| Total fixed maturity available-for-sale securities | \$2,494,710 | \$189,181 | \$20,317 | \$2,663,574 | \$11,414 |

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

Our fixed maturity available-for-sale securities are U.S. dollar denominated securities. Non-U.S. governments consist primarily of securities issued by governments and financial institutions that are explicitly guaranteed by the respective government. At December 31, 2011, U.S. Government agencies consisted of securities issued by financial institutions under the Temporary Liquidity Guarantee Program guaranteed by the Federal Deposit Insurance Corporation.

Fixed Maturity Trading Securities

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

| | September 30, 2012 | December 31, 2011 |
|---|-----------------------|----------------------|
| Non-U.S. dollar denominated securities: | | |
| Non-U.S. governments | \$ 116,056 | \$ 125,126 |
| Total fixed maturity trading securities | \$ 116,056 | \$ 125,126 |

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

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

In prior periods, we have used insurance-linked securities to actively manage our exposure to catastrophe loss. We elected to record our investments in insurance-linked securities using the fair value option attributes of FASB Accounting Standards Codification ("ASC") 825, "Financial Instruments" ("ASC 825"), and recorded these in fixed maturity trading securities. There were mark-to-market adjustments recorded under ASC 825 of \$0.1 million of net realized gains on investments for the three months ended September 30, 2011 and \$1.2 million of net realized losses on investments for the nine months ended September 30, 2011.

At acquisition, we determine our trading intent in the near term of our fixed maturity trading securities accounted for in accordance with ASC 825. If we do not intend to sell these securities in the near term, the purchases and sales are included in investing activities in our consolidated statements of cash flows, otherwise they are included in operating activities. For the nine months ended September 30, 2011, there were proceeds from sales and maturities of \$20.4 million and \$5.0 million, respectively, and no purchases of trading securities accounted for in accordance with ASC 825 that were included in investing activities in the statements of cash flows.

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 September 30, 2012 (\$ in thousands):

| | Amortized Cost | Fair Value |
|---|---------------------|---------------------|
| Due in one year or less | \$ 112,587 | \$ 113,834 |
| Due from one to five years | 420,818 | 448,884 |
| Due from five to ten years | 557,221 | 614,933 |
| Due in ten or more years | 565,559 | 651,652 |
| Mortgage-backed and asset-backed securities | 453,015 | 463,791 |
| Total | \$ 2,109,200 | \$ 2,293,094 |

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

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

| | September 30, 2012 | December 31, 2011 |
|--------------------------|-----------------------|----------------------|
| Available-for-sale: | | |
| U.S. Government | \$ 49,249 | \$ 322,320 |
| U.S. Government agencies | - | 85,389 |

| | | |
|------------------------------|-----------|------------|
| Trading: | | |
| Non-U.S. governments | 116,492 | 181,125 |
| Total short-term investments | \$165,741 | \$ 588,834 |

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

For the nine months ended September 30, 2012, we had purchases of \$204.3 million, proceeds from maturities of \$242.0 million and proceeds from sales of \$36.6 million from non-U.S. dollar denominated short-term investments accounted for in accordance with ASC 825 that were included in investing activities in the statements of cash flows. For the nine months ended September 30, 2011, we had purchases of \$165.5 million, proceeds from maturities of \$93.6 million and no proceeds from sales from non-U.S. dollar denominated short-term investments accounted for in accordance with ASC 825 that were included in investing activities in the statements of cash flows.

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

Other-Than-Temporary Impairments

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

The following table sets forth the net impairment losses on investments for the three and nine months ended September 30, 2012 and 2011 (\$ in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------|-------------------|---------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Commercial mortgage-backed securities | \$- | \$- | \$30 | \$- |
| Non-agency residential mortgage-backed securities | 693 | 3,923 | 2,839 | 6,310 |
| Sub-prime asset-backed securities | 6 | 528 | 13 | 1,314 |
| Net impairment losses on investments | \$699 | \$4,451 | \$2,882 | \$7,624 |

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. As of September 30, 2012, the single largest unrealized loss within our CMBS portfolio was \$0.3 million related to a security with an amortized cost of \$3.0 million.

Residential mortgage-backed securities (“RMBS”) include U.S. Government agency RMBS and non-agency RMBS. Securities with underlying sub-prime mortgages as collateral are included in asset-backed securities (“ABS”). We analyze our non-agency RMBS and sub-prime ABS on a periodic basis using default loss models based on the performance of the underlying loans. Performance metrics include delinquencies, defaults, foreclosures, prepayment speeds and cumulative losses incurred. The expected losses for a mortgage pool are compared with the current level of credit support, which generally represents the point at which our security would experience losses. We evaluate projected cash flows as well as other factors in order to determine if a credit impairment has occurred. As of September 30, 2012, the single largest unrealized loss within our RMBS portfolio was \$1.5 million related to a non-agency RMBS security with an amortized cost of \$2.0 million. As of September 30, 2012, the single largest unrealized loss within our sub-prime ABS portfolio was \$0.6 million related to a security with an amortized cost of \$1.0 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 nine months ended September 30, 2012 and 2011 (\$ in thousands):

| | Three Months Ended | | Nine Months Ended | |
|------------------------------|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Balance, beginning of period | \$57,874 | \$47,872 | \$61,841 | \$48,845 |

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| | | | | |
|--|----------|----------|----------|----------|
| Credit losses on securities not previously impaired | 42 | 1,509 | 42 | 1,529 |
| Additional credit losses on securities previously impaired | 657 | 2,942 | 2,840 | 6,095 |
| Reduction for paydowns and securities sold | (3,447) | (2,160) | (9,168) | (6,061) |
| Reduction for increases in cash flows expected to be collected | (309) | (175) | (738) | (420) |
| Balance, end of period | \$54,817 | \$49,988 | \$54,817 | \$49,988 |

As of September 30, 2012, total cumulative credit losses were related to CMBS, non-agency RMBS and sub-prime ABS. The cumulative credit losses we recorded on CMBS of \$3.7 million were on four securities issued from 2006 to 2007. As of September 30, 2012, 7.7% of the mortgages backing these securities were 90 days or more past due and 0.9% of the mortgages had incurred cumulative losses. For these securities, the expected losses for the underlying mortgages were greater than the remaining average credit support of 20.4%. The cumulative credit losses we recorded on non-agency RMBS and sub-prime ABS of \$51.1 million were on twenty-nine securities issued from 2004 to 2007. As of September 30, 2012, 14.8% of the mortgages backing these securities were 90 days or more past due and 5.6% of the mortgages had incurred cumulative losses. For these securities, the expected losses for the underlying mortgages were greater than the remaining average credit support of 6.0%.

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

Unrealized Losses

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

| | September 30, 2012 | | December 31, 2011 | |
|--|--------------------|-----------------|-------------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Less than twelve months: | | | | |
| Municipal bonds | \$9,595 | \$1 | \$4,751 | \$131 |
| Non-U.S. governments | - | - | 9,988 | 29 |
| Corporate bonds | 1,956 | 41 | 12,526 | 763 |
| Commercial mortgage-backed securities | 936 | 160 | 19,797 | 1,047 |
| Residential mortgage-backed securities | 73 | 4 | 131,574 | 2,112 |
| Asset-backed securities | 56 | 3 | 580 | 84 |
| Total | \$12,616 | \$207 | \$179,216 | \$4,166 |
| Twelve months or more: | | | | |
| Municipal bonds | \$3,014 | \$7 | \$3,002 | \$47 |
| Non-U.S. governments | 4,978 | 21 | 4,373 | 626 |
| Corporate bonds | 5,713 | 485 | - | - |
| Commercial mortgage-backed securities | 7,238 | 473 | 6,171 | 1,537 |
| Residential mortgage-backed securities | 31,567 | 5,467 | 43,704 | 10,314 |
| Asset-backed securities | 4,925 | 1,170 | 16,854 | 3,627 |
| Total | \$57,435 | \$7,624 | \$74,104 | \$16,151 |
| Total unrealized losses: | | | | |
| Municipal bonds | \$12,609 | \$8 | \$7,753 | \$178 |
| Non-U.S. governments | 4,978 | 21 | 14,361 | 655 |
| Corporate bonds | 7,669 | 526 | 12,526 | 763 |
| Commercial mortgage-backed securities | 8,174 | 633 | 25,968 | 2,584 |
| Residential mortgage-backed securities | 31,640 | 5,471 | 175,278 | 12,426 |
| Asset-backed securities | 4,981 | 1,173 | 17,434 | 3,711 |
| Total | \$70,051 | \$7,832 | \$253,320 | \$20,317 |

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

Net Investment Income

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Fixed maturity securities | \$22,022 | \$28,399 | \$73,892 | \$92,811 |
| Short-term investments and cash and cash equivalents | 1,547 | 2,032 | 5,358 | 5,622 |
| Funds held | 684 | 406 | 1,938 | 1,019 |
| Subtotal | 24,253 | 30,837 | 81,188 | 99,452 |
| Investment expenses | (1,044) | (1,075) | (3,272) | (3,347) |
| Net investment income | \$23,209 | \$29,762 | \$77,916 | \$96,105 |

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

Net Realized Gains on Investments

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------|-------------------|---------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Gross realized gains on the sale of investments | \$22,979 | \$3,892 | \$70,920 | \$8,313 |
| Gross realized losses on the sale of investments | - | (2) | (1) | (6,899) |
| Net realized gains on the sale of investments | 22,979 | 3,890 | 70,919 | 1,414 |
| Mark-to-market adjustments on trading securities | 3 | 3,608 | (620) | 1,802 |
| Net realized gains on investments | \$22,982 | \$7,498 | \$70,299 | \$3,216 |

3. Fair Value Measurements

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

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

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

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

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

| | Fair Value Measurement Using: | | | |
|----------------------------|-------------------------------|---------|-----------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| September 30, 2012: | | | | |
| Investments: | | | | |
| U.S. Government | \$4,991 | \$4,991 | \$- | \$- |
| U.S. Government agencies | 10,290 | - | 10,290 | - |
| Municipal bonds | 1,281,782 | - | 1,281,782 | - |

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| | | | | |
|--|-------------|----------|-------------|----------|
| Non-U.S. governments | 210,818 | 56,820 | 153,998 | - |
| Corporate bonds | 321,421 | - | 321,421 | - |
| Commercial mortgage-backed securities | 176,649 | - | 176,649 | - |
| Residential mortgage-backed securities | 265,552 | - | 257,345 | 8,207 |
| Asset-backed securities | 21,591 | - | 15,522 | 6,069 |
| Short-term investments | 165,741 | - | 165,741 | - |
| Total | \$2,458,835 | \$61,811 | \$2,382,748 | \$14,276 |

December 31, 2011:

Investments:

| | | | | |
|--|-------------|----------|-------------|----------|
| U.S. Government | \$5,083 | \$5,083 | \$- | \$- |
| U.S. Government agencies | 100,259 | - | 100,259 | - |
| Municipal bonds | 1,660,760 | - | 1,660,760 | - |
| Non-U.S. governments | 196,392 | 55,561 | 140,831 | - |
| Corporate bonds | 349,548 | - | 349,548 | - |
| Commercial mortgage-backed securities | 204,609 | - | 204,609 | - |
| Residential mortgage-backed securities | 251,627 | - | 243,481 | 8,146 |
| Asset-backed securities | 20,422 | - | 18,555 | 1,867 |
| Short-term investments | 588,834 | 34,894 | 553,940 | - |
| Total | \$3,377,534 | \$95,538 | \$3,271,983 | \$10,013 |

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

The fair values of our fixed maturity securities and short-term investments are generally based on prices obtained from independent index providers, pricing vendors or broker-dealers using observable inputs. Fixed maturity securities and short-term investments are generally valued using the market approach. The prices we obtain from third party pricing sources are validated by performing price comparisons against multiple pricing sources if available, periodic back-testing of sales to the previously reported fair value, an in-depth review of specific securities when evaluating stale prices, large price movements and other factors, as well as 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 services. If we determine that a price appears unreasonable, we investigate and assess whether the price should be adjusted.

The following table describes the valuation techniques, assumptions, and significant inputs used to determine the fair value of our financial assets and liabilities as well as their classification pursuant to the fair value hierarchy:

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

| | |
|--|---|
| Commercial mortgage-backed securities | The fair values of CMBS were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, security cash flows and structures, delinquencies, loss severities and default rates. The fair value measurements were classified as Level 2. |
| Residential mortgage-backed securities | Our RMBS portfolio was comprised of securities issued by U.S. Government agencies and by non-agency institutions. The observable inputs used to price U.S. Government agency RMBS may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, loan level information and prepayment speeds. The observable inputs used to price non-agency RMBS may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, security cash flows and structures, prepayment speeds, delinquencies, loss severities and default rates. The fair value measurements were classified as Level 2 or Level 3. |
| Asset-backed securities | The fair values of ABS were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, security cash flows and structures, type of collateral, prepayment speeds, delinquencies, loss severities and default rates. The fair value measurements were classified as Level 2 or Level 3. |
| Short-term investments | Short-term investments were carried at fair value based on observable inputs or carried at amortized cost, which approximates fair value. The fair value measurements were classified as Level 1 or Level 2. |
| Derivative instruments | During 2011, we held derivative instruments. Our derivative instruments included interest rate options, commodity options and other derivative instruments. See Note 4 for additional disclosure on our derivative instruments. Our interest rate and commodity options were exchange traded and the fair values were based on quoted prices in active markets for identical assets. The fair values were classified as Level 1. The fair value of our other derivative instrument was determined by management primarily using unobservable inputs through the application of our own assumptions and internal valuation pricing models. The fair value was classified as Level 3. |

The fair value measurements of our non-agency RMBS and sub-prime ABS classified as Level 3 used significant unobservable inputs that include prepayment rates, probability of default, and loss severity in the event of default. The prices we obtained to determine these measurements were based upon unadjusted third party pricing sources.

The fair value measurement of our other derivative instrument classified as Level 3 used significant unobservable inputs through the application of our own assumptions and internal valuation pricing models. Unobservable inputs used in the internal valuation pricing model included the unpaid contract premiums, probability of losses triggered under the covered perils for first and second events, the remaining time to the end of the annual contract period and the seasonality of risks. Significant increases or decreases in any of these inputs in isolation may result in a significantly lower or higher fair value measurement.

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

Level 3 Financial Assets and Liabilities

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

| | Three Months Ended September 30, 2012 | | | |
|---|---------------------------------------|-------------------------|-------------|----------|
| | Residential | | Derivatives | Total |
| | mortgage-backed securities | Asset-backed securities | | |
| Beginning balance, June 1 | \$7,461 | \$ 1,566 | \$- | \$9,027 |
| Purchases | - | - | - | - |
| Issuances | - | - | - | - |
| Settlements | - | - | - | - |
| Sales, maturities and paydowns | (935) | - | - | (935) |
| Total net realized gains included in earnings | - | - | - | - |
| Total net unrealized gains (losses) included in other comprehensive income (loss) | 1,789 | (30) | - | 1,759 |
| Transfers into Level 3 | 3,807 | 4,932 | - | 8,739 |
| Transfers out of Level 3 | (3,915) | (399) | - | (4,314) |
| Ending balance, September 30 | \$8,207 | \$ 6,069 | \$- | \$14,276 |
| Total increase (decrease) in fair value of the financial assets and liabilities included in earnings for the period | \$- | \$ - | \$- | \$- |

| | Three Months Ended September 30, 2011 | | | |
|---|---------------------------------------|-------------------------|-------------|------------|
| | Residential | | Derivatives | Total |
| | mortgage-backed securities | Asset-backed securities | | |
| Beginning balance, June 1 | \$2,809 | \$ - | \$(790) | \$2,019 |
| Purchases | - | - | - | - |
| Issuances | - | - | - | - |
| Settlements | - | - | 2,560 | 2,560 |
| Sales, maturities and paydowns | (64) | - | - | (64) |
| Total net realized gains included in earnings | - | - | - | - |
| Total increase (decrease) in fair value of the derivative instrument included in earnings | - | - | (1,770) | (1,770) |
| Total net unrealized gains (losses) included in other comprehensive income (loss) | 185 | - | - | 185 |
| Transfers into Level 3 | - | 496 | - | 496 |
| Transfers out of Level 3 | (2,930) | - | - | (2,930) |
| Ending balance, September 30 | \$- | \$ 496 | \$- | \$496 |
| Total increase (decrease) in fair value of the financial assets and liabilities included in earnings for the period | \$- | \$ - | \$(1,770) | \$(1,770) |

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

| | Nine Months Ended September 30, 2012 | | | |
|--|--|----------------------------|-------------|----------|
| | Residential mortgage-backed securities | Asset-backed securities | Derivatives | Total |
| Beginning balance, January 1 | \$8,146 | \$ 1,867 | \$- | \$10,013 |
| Purchases | - | - | - | - |
| Issuances | - | - | - | - |
| Settlements | - | - | - | - |
| Sales, maturities and paydowns | (1,669) | - | - | (1,669) |
| Total net realized gains included in earnings | - | - | - | - |
| Total net unrealized gains (losses) included in other comprehensive income (loss) | 1,839 | (331) | - | 1,508 |
| Transfers into Level 3 | 6,060 | 4,932 | - | 10,992 |
| Transfers out of Level 3 | (6,169) | (399) | - | (6,568) |
| Ending balance, September 30 | \$8,207 | \$ 6,069 | \$- | \$14,276 |
| Total increase (decrease) in fair value of the financial assets and liabilities included in earnings for the period | \$- | \$ - | \$- | \$- |

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

| | Nine Months Ended September 30, 2011 | | | |
|---|--|----------------------------|-------------|------------|
| | Residential mortgage-backed securities | Asset-backed securities | Derivatives | Total |
| Beginning balance, January 1 | \$2,449 | \$ 1,069 | \$(4,871) | \$(1,353) |
| Purchases | - | - | - | - |
| Issuances | - | - | - | - |
| Settlements | - | - | 7,389 | 7,389 |
| Sales, maturities and paydowns | (229) | - | - | (229) |
| Total net realized gains included in earnings | - | - | - | - |
| Total increase (decrease) in fair value of the derivative instrument included in earnings | - | - | (2,518) | (2,518) |
| Total net unrealized gains (losses) included in other comprehensive income (loss) | 710 | 365 | - | 1,075 |
| Transfers into Level 3 | - | 496 | - | 496 |
| Transfers out of Level 3 | (2,930) | (1,434) | - | (4,364) |
| Ending balance, September 30 | \$- | \$ 496 | \$- | \$496 |
| Total increase (decrease) in fair value of the financial assets and liabilities included in earnings for the period | \$- | \$ - | \$(2,518) | \$(2,518) |

Transfers of assets and liabilities into or out of Level 3 are recorded at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. The transfers into and out of Level 3 were due to the sufficiency of evidence available to corroborate significant observable inputs with market observable information. There were no transfers between Levels 1 and 2 during the three and nine months ended September 30, 2012 and 2011.

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, excluding insurance contracts.

The Series B 7.5% Notes due June 1, 2017 (the "debt obligations") on our consolidated balance sheets were recorded at cost with a carrying value of \$250.0 million at September 30, 2012 and December 31, 2011, and had a fair value of \$276.5 million and \$269.0 million at September 30, 2012 and December 31, 2011, respectively. The fair value measurements were based on observable inputs and therefore would be considered to be Level 2.

Our remaining other financial assets and liabilities were carried at cost or amortized cost, which generally approximates fair value, at September 30, 2012 and December 31, 2011. The fair value measurements were based on observable inputs and therefore would be considered to be Level 1 or Level 2.

4. Derivative Instruments

At December 31, 2011 and during the period January 1, 2012 through September 30, 2012, we held no derivative instruments. In prior periods, including the nine months ended September 30, 2011, we held derivative

instruments. Our derivative instruments are recorded in the consolidated balance sheets at fair value as other assets or other liabilities, with changes in fair values and realized gains and losses recognized in net changes in fair value of derivatives in the consolidated statements of operations. None of our derivatives were designated as hedges under current accounting guidance. Our objectives for entering into derivative agreements are as follows:

Interest Rate Options

We use interest rate options within our portfolio of fixed maturity investments to manage our exposure to interest rate risk.

Commodity Options

We use commodity options to hedge certain underwriting risks.

Other Derivative Instrument

We use other derivative instruments to hedge certain underwriting risks.

In August 2008, we entered into a derivative agreement with Topiary Capital Limited (“Topiary”), a Cayman Islands special purpose vehicle, that provided 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 occurred that met specified loss criteria during any of three annual periods commencing August 1, 2008. The derivative agreement with Topiary expired on July 31, 2011 and no recovery was made.

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

The following table sets forth the net changes in fair value of derivatives in the consolidated statements of operations for the three and nine months ended September 30, 2012 and 2011 (\$ in thousands):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------|-------------------|---------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Interest rate options | \$- | \$2,929 | \$- | \$2,929 |
| Commodity options | - | (153) | - | (153) |
| Other derivative instrument | - | 1,770 | - | 2,518 |
| Net changes in fair value of derivatives | \$- | \$4,546 | \$- | \$5,294 |

5. Credit Facilities

Syndicated Credit Facility

On June 24, 2011, we entered into an amended and restated three-year \$300.0 million credit facility (the "Syndicated Credit Facility") that consists of a \$100.0 million unsecured senior credit facility available for revolving borrowings and letters of credit and a \$200.0 million secured senior credit facility available for letters of credit. The Syndicated Credit Facility contains customary representations, warranties and covenants. We are in compliance with the covenants under the Syndicated Credit Facility. The Syndicated Credit Facility provides that we may increase the lender commitments by up to \$150.0 million subject to the participation of lenders.

Other Letter of Credit Facilities

On June 30, 2011, our reinsurance subsidiaries entered into a letter of credit ("LOC") facility in the maximum aggregate amount of \$100.0 million that expires on December 31, 2013. Under the terms of the facility, up to \$100.0 million is available for the issuance of letters of credit to support reinsurance obligations of our reinsurance subsidiaries. The facility contains customary representations, warranties and covenants. We are in compliance with the covenants. We also have the ability to request a supplemental LOC facility for up to \$150.0 million subject to agreement with the lender.

On July 31, 2012, Platinum Bermuda entered into a one-year uncommitted LOC facility in the maximum aggregate amount of \$75.0 million. Under the terms of the facility, up to \$75.0 million is available for the issuance of letters of credit to support reinsurance obligations of Platinum Bermuda. The facility contains customary representations, warranties and covenants. We also have the ability to request a supplemental LOC facility for up to \$75.0 million subject to agreement with the lender.

We had no cash borrowings under the Syndicated Credit Facility during the nine months ended September 30, 2012. The following table summarizes the outstanding letters of credit and the cash and cash equivalents and investments held in trust to collateralize the letters of credit issued as of September 30, 2012 (\$ in thousands):

| Letters of Credit | | Collateral | | |
|--------------------|--------|---------------------------|-------------|-------|
| Committed Capacity | Issued | Cash and Cash Equivalents | Investments | Total |
| | | | | |

| | | | | | |
|----------------------------------|-----------|-----------|-----------|-----|-----------|
| Syndicated Credit Facility: | | | | | |
| Secured | \$200,000 | \$99,715 | \$113,307 | \$- | \$113,307 |
| Unsecured | 100,000 | - | - | - | - |
| Total Syndicated Credit Facility | 300,000 | 99,715 | 113,307 | - | 113,307 |
| Other LOC Facilities | 100,000 | 37,330 | 45,287 | - | 45,287 |
| Total | \$400,000 | \$137,045 | \$158,594 | \$- | \$158,594 |

6. 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, Platinum Holdings and Platinum Bermuda 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 31, 2035. Platinum Holdings has subsidiaries based in the United States 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 2009 and later.

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

7. Share Repurchases

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 July 23, 2012, 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 September 30, 2012, in accordance with the share repurchase program, we repurchased 491,791 of our common shares in the open market for an aggregate cost of \$19.7 million at a weighted average cost including commissions of \$40.05 per share. During the nine months ended September 30, 2012, in accordance with the share repurchase program, we repurchased 2,956,262 of our common shares in the open market for an aggregate cost of \$109.6 million at a weighted average cost including commissions of \$37.08 per share. The shares we repurchased were canceled.

8. Statutory Regulations and Dividend Capacity

The laws and regulations of Bermuda and the United States include certain restrictions on the amount of statutory capital and surplus that are available for the payment of dividends 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 regulatory restrictions, the maximum amount available for payment of dividends by our reinsurance subsidiaries during 2012 without prior regulatory approval is as follows (\$ in thousands):

| | |
|------------------|-----------|
| Platinum Bermuda | \$286,574 |
| Platinum US | 52,992 |
| Total | \$339,566 |

During the nine months ended September 30, 2012, dividends of \$120.0 million were paid by Platinum Bermuda to Platinum Holdings. Therefore, as of September 30, 2012, the remaining amount available for payment of dividends by our reinsurance subsidiaries during 2012 without prior regulatory approval was \$219.6 million.

There are no regulatory restrictions on the amount of dividends that Platinum Finance can pay to Platinum Regency. Irish law prohibits Platinum Regency from declaring a dividend to Platinum Holdings unless it has “profits available for distribution.” The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses.

9. 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 property catastrophe and marine excess-of-loss reinsurance contracts, property and marine per-risk excess-of-loss reinsurance contracts and property proportional reinsurance 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. 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.

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

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 and losses 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. Underwriting ratios are considered to be non-GAAP measures and are calculated for net losses and LAE, net acquisition expense and net underwriting expense. The ratios are calculated by dividing the related expense by net earned premiums. The following table summarizes underwriting activity and ratios for the three operating segments, together with a reconciliation of segment underwriting income (loss) to income (loss) before income taxes for the three and nine months ended September 30, 2012 and 2011 (\$ in thousands):

| | Three Months Ended September 30, 2012 | | | | | | | |
|--|---------------------------------------|----------|-------------|-----------|-------|---|------|---|
| | Property and Marine | Casualty | Finite Risk | Total | | | | |
| Net premiums written | \$64,876 | \$72,358 | \$8,745 | \$145,979 | | | | |
| Net premiums earned | 61,900 | 70,326 | 6,362 | 138,588 | | | | |
| Net losses and loss adjustment expenses | 26,790 | 14,358 | 3,969 | 45,117 | | | | |
| Net acquisition expenses | 7,078 | 16,710 | 2,380 | 26,168 | | | | |
| Other underwriting expenses | 7,661 | 5,662 | 289 | 13,612 | | | | |
| Segment underwriting income (loss) | \$20,371 | \$33,596 | \$(276) | 53,691 | | | | |
| Net investment income | | | | 23,209 | | | | |
| Net realized gains on investments | | | | 22,982 | | | | |
| Net impairment losses on investments | | | | (699) | | | | |
| Other income (expense) | | | | (96) | | | | |
| Net changes in fair value of derivatives | | | | - | | | | |
| Corporate expenses not allocated to segments | | | | (6,354) | | | | |
| Net foreign currency exchange (losses) gains | | | | (541) | | | | |
| Interest expense | | | | (4,775) | | | | |
| Income (loss) before income taxes | | | | \$87,417 | | | | |
| Underwriting ratios: | | | | | | | | |
| Net loss and loss adjustment expense | 43.3 | % | 20.4 | % | 62.4 | % | 32.6 | % |
| Net acquisition expense | 11.4 | % | 23.8 | % | 37.4 | % | 18.9 | % |
| Other underwriting expense | 12.4 | % | 8.1 | % | 4.5 | % | 9.8 | % |
| Combined | 67.1 | % | 52.3 | % | 104.3 | % | 61.3 | % |

| | Three Months Ended September 30, 2011 | | | |
|---|---------------------------------------|----------|-------------|-----------|
| | Property and Marine | Casualty | Finite Risk | Total |
| Net premiums written | \$101,633 | \$72,689 | \$2,802 | \$177,124 |
| Net premiums earned | 85,239 | 78,021 | 3,553 | 166,813 |
| Net losses and loss adjustment expenses | 156,995 | 42,704 | 1,754 | 201,453 |

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| | | | | |
|--|-------------|----------|--------|-------------|
| Net acquisition expenses | 12,068 | 16,780 | 1,360 | 30,208 |
| Other underwriting expenses | 6,686 | 4,300 | 218 | 11,204 |
| Segment underwriting income (loss) | \$(90,510) | \$14,237 | \$221 | (76,052) |
| Net investment income | | | | 29,762 |
| Net realized gains on investments | | | | 7,498 |
| Net impairment losses on investments | | | | (4,451) |
| Other income (expense) | | | | (198) |
| Net changes in fair value of derivatives | | | | (4,546) |
| Corporate expenses not allocated to segments | | | | (3,551) |
| Net foreign currency exchange (losses) gains | | | | 982 |
| Interest expense | | | | (4,769) |
| Income (loss) before income taxes | | | | \$(55,325) |
| Underwriting ratios: | | | | |
| Net loss and loss adjustment expense | 184.2 | % 54.7 | % 49.4 | % 120.8 |
| Net acquisition expense | 14.2 | % 21.5 | % 38.3 | % 18.1 |
| Other underwriting expense | 7.8 | % 5.5 | % 6.1 | % 6.7 |
| Combined | 206.2 | % 81.7 | % 93.8 | % 145.6 |

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

| Nine Months Ended September 30, 2012 | | | | | | | | |
|--|------------------------|------------|-------------|------------|-------|---|------|---|
| | Property and Marine | Casualty | Finite Risk | Total | | | | |
| Net premiums written | \$ 194,724 | \$ 219,436 | \$ 16,939 | \$ 431,099 | | | | |
| Net premiums earned | 186,066 | 221,838 | 13,971 | 421,875 | | | | |
| Net losses and loss adjustment expenses | 85,380 | 101,245 | 4,805 | 191,430 | | | | |
| Net acquisition expenses | 25,034 | 52,572 | 9,419 | 87,025 | | | | |
| Other underwriting expenses | 21,950 | 16,323 | 747 | 39,020 | | | | |
| Segment underwriting income (loss) | \$ 53,702 | \$ 51,698 | \$(1,000) | 104,400 | | | | |
| Net investment income | | | | 77,916 | | | | |
| Net realized gains on investments | | | | 70,299 | | | | |
| Net impairment losses on investments | | | | (2,882) | | | | |
| Other income (expense) | | | | (766) | | | | |
| Net changes in fair value of derivatives | | | | - | | | | |
| Corporate expenses not allocated to segments | | | | (17,625) | | | | |
| Net foreign currency exchange (losses) gains | | | | (763) | | | | |
| Interest expense | | | | (14,321) | | | | |
| Income (loss) before income taxes | | | | \$ 216,258 | | | | |
| Underwriting ratios: | | | | | | | | |
| Net loss and loss adjustment expense | 45.9 | % | 45.6 | % | 34.4 | % | 45.4 | % |
| Net acquisition expense | 13.5 | % | 23.7 | % | 67.4 | % | 20.6 | % |
| Other underwriting expense | 11.8 | % | 7.4 | % | 5.3 | % | 9.2 | % |
| Combined | 71.2 | % | 76.7 | % | 107.1 | % | 75.2 | % |
| Nine Months Ended September 30, 2011 | | | | | | | | |
| | Property and Marine | Casualty | Finite Risk | Total | | | | |
| Net premiums written | \$ 267,846 | \$ 222,442 | \$ 7,508 | \$ 497,796 | | | | |
| Net premiums earned | 274,996 | 235,949 | 11,185 | 522,130 | | | | |
| Net losses and loss adjustment expenses | 551,868 | 126,191 | 2,346 | 680,405 | | | | |
| Net acquisition expenses | 37,703 | 53,487 | 7,083 | 98,273 | | | | |
| Other underwriting expenses | 21,281 | 14,461 | 717 | 36,459 | | | | |
| Segment underwriting income (loss) | \$(335,856) | \$ 41,810 | \$ 1,039 | (293,007) | | | | |
| Net investment income | | | | 96,105 | | | | |
| Net realized gains on investments | | | | 3,216 | | | | |
| Net impairment losses on investments | | | | (7,624) | | | | |
| Other income (expense) | | | | 838 | | | | |
| Net changes in fair value of derivatives | | | | (5,294) | | | | |
| Corporate expenses not allocated to segments | | | | (12,552) | | | | |
| Net foreign currency exchange (losses) gains | | | | 179 | | | | |

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| | |
|-----------------------------------|--------------|
| Interest expense | (14,302) |
| Income (loss) before income taxes | \$(232,441) |

Underwriting ratios:

| | | | | | | | | |
|--------------------------------------|-------|---|------|---|------|---|-------|---|
| Net loss and loss adjustment expense | 200.7 | % | 53.5 | % | 21.0 | % | 130.3 | % |
| Net acquisition expense | 13.7 | % | 22.7 | % | 63.3 | % | 18.8 | % |
| Other underwriting expense | 7.7 | % | 6.1 | % | 6.4 | % | 7.0 | % |
| Combined | 222.1 | % | 82.3 | % | 90.7 | % | 156.1 | % |

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

10. Earnings (Loss) per Common Share

The following is a reconciliation of basic and diluted earnings or loss per common share for the three and nine months ended September 30, 2012 and 2011 (\$ and amounts in thousands, except per share data):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------------|-------------------|--------------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Earnings (Loss) | | | | |
| Basic and Diluted | | | | |
| Net income (loss) attributable to common shareholders | \$84,864 | \$(53,535) | \$205,683 | \$(231,128) |
| Portion allocated to participating common shareholders (1) | (234) | 251 | (740) | 1,285 |
| Net income (loss) allocated to common shareholders | \$84,630 | \$(53,284) | \$204,943 | \$(229,843) |
| Common Shares | | | | |
| Basic | | | | |
| Weighted average common shares outstanding | 32,996 | 37,183 | 34,063 | 37,165 |
| Diluted | | | | |
| Weighted average common shares outstanding | 32,996 | 37,183 | 34,063 | 37,165 |
| Effect of dilutive securities: | | | | |
| Common share options | 179 | 52 | 154 | 195 |
| Restricted share units | 97 | 125 | 69 | 218 |
| Adjusted weighted average common shares outstanding | 33,272 | 37,360 | 34,286 | 37,578 |
| Earnings (Loss) Per Common Share | | | | |
| Basic earnings (loss) per common share | \$2.56 | \$(1.43) | \$6.02 | \$(6.18) |
| Diluted earnings (loss) per common share (2) | \$2.54 | \$(1.43) | \$5.98 | \$(6.18) |

(1) Represents earnings attributable to holders of invested 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.

11. Condensed Consolidating Financial Information

Platinum Holdings fully and unconditionally guarantees the \$250.0 million of debt obligations issued by its 100%-owned subsidiary 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 September 30, 2012 and December 31, 2011 and for the three and nine months ended September 30, 2012 and 2011 (\$ in thousands):

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

Condensed Consolidating Balance Sheet
September 30, 2012

| | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|----------------------|---------------------|-------------------------------|------------------------------|--------------|
| ASSETS | | | | | |
| Total investments | \$- | \$207 | \$ 2,458,628 | \$ - | \$ 2,458,835 |
| Investment in subsidiaries | 1,741,726 | 665,407 | 519,306 | (2,926,439) | - |
| Cash and cash equivalents | 44,701 | 104,816 | 1,513,162 | - | 1,662,679 |
| Reinsurance assets | - | - | 297,609 | - | 297,609 |
| Other assets | 8,077 | 5,194 | 60,528 | - | 73,799 |
| Total assets | \$1,794,504 | \$775,624 | \$ 4,849,233 | \$ (2,926,439) | \$ 4,492,922 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Liabilities | | | | | |
| Reinsurance liabilities | \$- | \$- | \$ 2,349,943 | \$ - | \$ 2,349,943 |
| Debt obligations | - | 250,000 | - | - | 250,000 |
| Other liabilities | 4,558 | 6,319 | 92,156 | - | 103,033 |
| Total liabilities | \$4,558 | \$256,319 | \$ 2,442,099 | \$ - | \$ 2,702,976 |
| Shareholders' Equity | | | | | |
| Common shares | \$328 | \$- | \$ 8,000 | \$ (8,000) | \$ 328 |
| Additional paid-in capital | 211,546 | 213,710 | 2,020,990 | (2,234,700) | 211,546 |
| Accumulated other comprehensive income | 150,387 | 45,159 | 195,538 | (240,697) | 150,387 |
| Retained earnings | 1,427,685 | 260,436 | 182,606 | (443,042) | 1,427,685 |
| Total shareholders' equity | \$1,789,946 | \$519,305 | \$ 2,407,134 | \$ (2,926,439) | \$ 1,789,946 |
| Total liabilities and shareholders' equity | \$1,794,504 | \$775,624 | \$ 4,849,233 | \$ (2,926,439) | \$ 4,492,922 |

Condensed Consolidating Balance Sheet
December 31, 2011

| | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|----------------------|---------------------|-------------------------------|------------------------------|--------------|
| ASSETS | | | | | |
| Total investments | \$- | \$274 | \$ 3,377,260 | \$ - | \$ 3,377,534 |
| Investment in subsidiaries | 1,638,898 | 621,041 | 484,561 | (2,744,500) | - |
| Cash and cash equivalents | 47,791 | 108,260 | 636,459 | - | 792,510 |
| Reinsurance assets | - | - | 297,374 | - | 297,374 |
| Other assets | 6,229 | 6,620 | 71,344 | - | 84,193 |
| Total assets | \$1,692,918 | \$736,195 | \$ 4,866,998 | \$ (2,744,500) | \$ 4,551,611 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Liabilities | | | | | |
| Reinsurance liabilities | \$- | \$- | \$ 2,573,701 | \$ - | \$ 2,573,701 |

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| | | | | | |
|--|-------------|-----------|--------------|-----------------|--------------|
| Debt obligations | - | 250,000 | - | - | 250,000 |
| Other liabilities | 2,059 | 1,634 | 33,358 | - | 37,051 |
| Total liabilities | \$2,059 | \$251,634 | \$ 2,607,059 | \$ - | \$ 2,860,752 |
| Shareholders' Equity | | | | | |
| Common shares | \$355 | \$- | \$ 8,000 | \$ (8,000) | \$ 355 |
| Additional paid-in capital | 313,730 | 213,342 | 2,000,335 | (2,213,677) | 313,730 |
| Accumulated other comprehensive income | 146,635 | 41,277 | 187,903 | (229,180) | 146,635 |
| Retained earnings | 1,230,139 | 229,942 | 63,701 | (293,643) | 1,230,139 |
| Total shareholders' equity | \$1,690,859 | \$484,561 | \$ 2,259,939 | \$ (2,744,500) | \$ 1,690,859 |
| Total liabilities and shareholders' equity | \$1,692,918 | \$736,195 | \$ 4,866,998 | \$ (2,744,500) | \$ 4,551,611 |

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

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the Three Months Ended September 30, 2012

| | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|----------------------|---------------------|-------------------------------|------------------------------|--------------|
| Revenue: | | | | | |
| Net premiums earned | \$- | \$- | \$ 138,588 | \$ - | \$ 138,588 |
| Net investment income | 2 | (3) | 23,210 | - | 23,209 |
| Net realized gains on investments | - | - | 22,982 | - | 22,982 |
| Net impairment losses on investments | - | - | (699) | - | (699) |
| Other income (expense) | 1,400 | 1 | (1,497) | - | (96) |
| Total revenue | 1,402 | (2) | 182,584 | - | 183,984 |
| Expenses: | | | | | |
| Net losses and loss adjustment expenses | - | - | 45,117 | - | 45,117 |
| Net acquisition expenses | - | - | 26,168 | - | 26,168 |
| Net changes in fair value of derivatives | - | - | - | - | - |
| Operating expenses | 5,842 | 49 | 14,075 | - | 19,966 |
| Net foreign currency exchange losses (gains) | - | - | 541 | - | 541 |
| Interest expense | - | 4,775 | - | - | 4,775 |
| Total expenses | 5,842 | 4,824 | 85,901 | - | 96,567 |
| Income (loss) before income taxes | (4,440) | (4,826) | 96,683 | - | 87,417 |
| Income tax expense (benefit) | - | (1,625) | 4,178 | - | 2,553 |
| Income (loss) before equity in earnings of subsidiaries | (4,440) | (3,201) | 92,505 | - | 84,864 |
| Equity in earnings of subsidiaries | 89,304 | 8,175 | 4,974 | (102,453) | - |
| Net income (loss) | \$ 84,864 | \$ 4,974 | \$ 97,479 | \$ (102,453) | \$ 84,864 |
| Other comprehensive income, net of deferred taxes | | | | | |
| | 1,825 | 1,355 | 3,181 | (4,536) | 1,825 |
| Comprehensive income (loss) | \$ 86,689 | \$ 6,329 | \$ 100,660 | \$ (106,989) | \$ 86,689 |

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the Three Months Ended September 30, 2011

| | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--------------------------------------|----------------------|---------------------|-------------------------------|------------------------------|--------------|
| Revenue: | | | | | |
| Net premiums earned | \$- | \$- | \$ 166,813 | \$ - | \$ 166,813 |
| Net investment income | 1 | (15) | 29,776 | - | 29,762 |
| Net realized gains on investments | - | - | 7,498 | - | 7,498 |
| Net impairment losses on investments | - | - | (4,451) | - | (4,451) |
| Other income (expense) | 59 | 3 | (260) | - | (198) |
| Total revenue | 60 | (12) | 199,376 | - | 199,424 |

Expenses:

| | | | | | |
|---|-------------|----------|--------------|--------------|-------------|
| Net losses and loss adjustment expenses | - | - | 201,453 | - | 201,453 |
| Net acquisition expenses | - | - | 30,208 | - | 30,208 |
| Net changes in fair value of derivatives | - | - | 4,546 | - | 4,546 |
| Operating expenses | 3,922 | 64 | 10,769 | - | 14,755 |
| Net foreign currency exchange losses (gains) | - | - | (982) | - | (982) |
| Interest expense | - | 4,769 | - | - | 4,769 |
| Total expenses | 3,922 | 4,833 | 245,994 | - | 254,749 |
| Income (loss) before income taxes | (3,862) | (4,845) | (46,618) | - | (55,325) |
| Income tax expense (benefit) | - | (1,652) | (138) | - | (1,790) |
| Income (loss) before equity in earnings of subsidiaries | (3,862) | (3,193) | (46,480) | - | (53,535) |
| Equity in earnings of subsidiaries | (49,673) | 2,462 | (731) | 47,942 | - |
| Net income (loss) | \$(53,535) | \$(731) | \$ (47,211) | \$ 47,942 | \$(53,535) |
| Other comprehensive income, net of deferred taxes | 86,804 | 8,831 | 95,636 | (104,467) | 86,804 |
| Comprehensive income (loss) | \$33,269 | \$8,100 | \$ 48,425 | \$ (56,525) | \$ 33,269 |

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

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the Nine Months Ended September 30, 2012

| | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|----------------------|---------------------|-------------------------------|------------------------------|--------------|
| Revenue: | | | | | |
| Net premiums earned | \$- | \$- | \$ 421,875 | \$ - | \$ 421,875 |
| Net investment income | 5 | (10) | 77,921 | - | 77,916 |
| Net realized gains on investments | - | - | 70,299 | - | 70,299 |
| Net impairment losses on investments | - | - | (2,882) | - | (2,882) |
| Other income (expense) | 3,587 | 2 | (4,355) | - | (766) |
| Total revenue | 3,592 | (8) | 562,858 | - | 566,442 |
| Expenses: | | | | | |
| Net losses and loss adjustment expenses | - | - | 191,430 | - | 191,430 |
| Net acquisition expenses | - | - | 87,025 | - | 87,025 |
| Net changes in fair value of derivatives | - | - | - | - | - |
| Operating expenses | 16,617 | 182 | 39,846 | - | 56,645 |
| Net foreign currency exchange losses (gains) | - | - | 763 | - | 763 |
| Interest expense | - | 14,321 | - | - | 14,321 |
| Total expenses | 16,617 | 14,503 | 319,064 | - | 350,184 |
| Income (loss) before income taxes | (13,025) | (14,511) | 243,794 | - | 216,258 |
| Income tax expense (benefit) | - | (4,890) | 15,465 | - | 10,575 |
| Income (loss) before equity in earnings of subsidiaries | (13,025) | (9,621) | 228,329 | - | 205,683 |
| Equity in earnings of subsidiaries | 218,708 | 40,116 | 30,495 | (289,319) | - |
| Net income (loss) | \$ 205,683 | \$ 30,495 | \$ 258,824 | \$ (289,319) | \$ 205,683 |
| Other comprehensive income, net of deferred taxes | | | | | |
| | 3,752 | 3,882 | 7,635 | (11,517) | 3,752 |
| Comprehensive income (loss) | \$ 209,435 | \$ 34,377 | \$ 266,459 | \$ (300,836) | \$ 209,435 |

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the Nine Months Ended September 30, 2011

| | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--------------------------------------|----------------------|---------------------|-------------------------------|------------------------------|--------------|
| Revenue: | | | | | |
| Net premiums earned | \$- | \$- | \$ 522,130 | \$ - | \$ 522,130 |
| Net investment income | 4 | 31 | 96,123 | (53) | 96,105 |
| Net realized gains on investments | - | - | 3,216 | - | 3,216 |
| Net impairment losses on investments | - | - | (7,624) | - | (7,624) |
| Other income (expense) | (1,633) | 121 | 2,350 | - | 838 |
| Total revenue | (1,629) | 152 | 616,195 | (53) | 614,665 |

Expenses:

| | | | | | |
|---|--------------|-----------|---------------|--------------|--------------|
| Net losses and loss adjustment expenses | - | - | 680,405 | - | 680,405 |
| Net acquisition expenses | - | - | 98,273 | - | 98,273 |
| Net changes in fair value of derivatives | - | - | 5,294 | - | 5,294 |
| Operating expenses | 13,971 | 266 | 34,774 | - | 49,011 |
| Net foreign currency exchange losses (gains) | 1 | - | (180) | - | (179) |
| Interest expense | 53 | 14,302 | - | (53) | 14,302 |
| Total expenses | 14,025 | 14,568 | 818,566 | (53) | 847,106 |
| Income (loss) before income taxes | (15,654) | (14,416) | (202,371) | - | (232,441) |
| Income tax expense (benefit) | (600) | (4,915) | 4,202 | - | (1,313) |
| Income (loss) before equity in earnings of subsidiaries | (15,054) | (9,501) | (206,573) | - | (231,128) |
| Equity in earnings of subsidiaries | (216,074) | 16,296 | 6,795 | 192,983 | - |
| Net income (loss) | \$(231,128) | \$6,795 | \$ (199,778) | \$ 192,983 | \$(231,128) |
| Other comprehensive income, net of deferred taxes | 151,326 | 31,934 | 183,261 | (215,195) | 151,326 |
| Comprehensive income (loss) | \$(79,802) | \$38,729 | \$ (16,517) | \$ (22,212) | \$(79,802) |

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

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2012

| | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|----------------------|---------------------|-------------------------------|------------------------------|--------------|
| Net cash provided by (used in) operating activities | \$(7,874) | \$(3,507) | \$ (7,588) | \$ - | \$(18,969) |
| Investing Activities: | | | | | |
| Proceeds from the sales of: | | | | | |
| Fixed maturity available-for-sale securities | - | - | 558,848 | - | 558,848 |
| Short-term investments | - | - | 36,581 | - | 36,581 |
| Proceeds from the maturities or paydowns of: | | | | | |
| Fixed maturity available-for-sale securities | - | 63 | 213,440 | - | 213,503 |
| Short-term investments | - | - | 663,011 | - | 663,011 |
| Acquisitions of: | | | | | |
| Fixed maturity available-for-sale securities | - | - | (202,729) | - | (202,729) |
| Short-term investments | - | - | (266,723) | - | (266,723) |
| Dividends from subsidiaries | 120,000 | - | - | (120,000) | - |
| Net cash provided by (used in) investing activities | 120,000 | 63 | 1,002,428 | (120,000) | 1,002,491 |
| Financing Activities: | | | | | |
| Dividends paid to common shareholders | (8,137) | - | (120,000) | 120,000 | (8,137) |
| Repurchase of common shares | (109,633) | - | - | - | (109,633) |
| Proceeds from exercise of common share options | 2,554 | - | - | - | 2,554 |
| Net cash provided by (used in) financing activities | (115,216) | - | (120,000) | 120,000 | (115,216) |
| Effect of foreign currency exchange rate changes on cash | | | | | |
| | - | - | 1,863 | - | 1,863 |
| Net increase (decrease) in cash and cash equivalents | (3,090) | (3,444) | 876,703 | - | 870,169 |
| Cash and cash equivalents at beginning of period | 47,791 | 108,260 | 636,459 | - | 792,510 |
| Cash and cash equivalents at end of period | \$44,701 | \$104,816 | \$ 1,513,162 | \$ - | \$1,662,679 |

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2011

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| | Platinum Holdings | Platinum Finance | Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------------|------------------|----------------------------|---------------------------|--------------|
| Net cash provided by (used in) operating activities | \$(4,375) | \$(6,701) | \$ 49,222 | \$ - | \$ 38,146 |
| Investing Activities: | | | | | |
| Proceeds from the sales of: | | | | | |
| Fixed maturity available-for-sale securities | - | - | 466,759 | - | 466,759 |
| Fixed maturity trading securities | - | - | 20,413 | - | 20,413 |
| Short-term investments | - | - | 27,995 | - | 27,995 |
| Investment-related derivatives | - | - | 3,094 | - | 3,094 |
| Proceeds from the maturities or paydowns of: | | | | | |
| Fixed maturity available-for-sale securities | - | 88 | 100,176 | - | 100,264 |
| Fixed maturity trading securities | - | - | 5,000 | - | 5,000 |
| Short-term investments | - | - | 234,946 | - | 234,946 |
| Acquisitions of: | | | | | |
| Fixed maturity available-for-sale securities | - | - | (35,783) | - | (35,783) |
| Short-term investments | - | - | (630,203) | - | (630,203) |
| Investment-related derivatives | - | - | (9,548) | - | (9,548) |
| Dividends from subsidiaries | 280,000 | - | - | (280,000) | - |
| Investment in subsidiary | (120,000) | (3,000) | - | 123,000 | - |
| Inter-company loans | - | 75,000 | 100,000 | (175,000) | - |
| Net cash provided by (used in) investing activities | 160,000 | 72,088 | 282,849 | (332,000) | 182,937 |
| Financing Activities: | | | | | |
| Dividends paid to common shareholders | (8,908) | - | (280,000) | 280,000 | (8,908) |
| Repurchase of common shares | (33,907) | - | - | - | (33,907) |
| Purchase of common share options | (47,900) | - | - | - | (47,900) |
| Proceeds from exercise of common share options | 1,223 | - | - | - | 1,223 |
| Capital contribution from parent | - | - | 123,000 | (123,000) | - |
| Inter-company loans | (75,000) | - | (100,000) | 175,000 | - |
| Net cash provided by (used in) financing activities | (164,492) | - | (257,000) | 332,000 | (89,492) |
| Effect of foreign currency exchange rate changes on cash | - | - | 7,837 | - | 7,837 |
| Net increase (decrease) in cash and cash equivalents | (8,867) | 65,387 | 82,908 | - | 139,428 |
| Cash and cash equivalents at beginning of period | 45,035 | 7,347 | 935,495 | - | 987,877 |
| Cash and cash equivalents at end of period | \$36,168 | \$72,734 | \$ 1,018,403 | \$ - | \$ 1,127,305 |

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 September 30, 2012 (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, 2011 (the "2011 Form 10-K"). This Form 10-Q contains forward-looking statements that involve risks and uncertainties. Please see Item 1A, "Risk Factors," in our 2011 Form 10-K and 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").

Non-GAAP Financial Measures

Underwriting income or loss and underwriting ratios measure the performance of the Company's underwriting function. Underwriting income or loss consists of net premiums earned less net losses and loss adjustment expenses ("LAE") and net underwriting expenses. Net underwriting expenses include net acquisition expenses and, when referring to a segment result, also includes operating costs related to the underwriting operations of the segment. Underwriting income or loss excludes income and expenses related to net investment income, net realized gains or losses on investments, net impairment losses on investments, net changes in fair value of derivatives, net foreign exchange gains or losses, corporate expenses not allocated to underwriting operations, interest expense and other revenues and expenses. Underwriting ratios are considered to be non-GAAP measures and are calculated for net losses and LAE, net acquisition expense and net underwriting expense. The ratios are calculated by dividing the related expense by net earned premiums.

We conduct our worldwide reinsurance business through three operating segments: Property and Marine, Casualty and Finite Risk. Segment underwriting income is reconciled to the U.S. GAAP measure of income or loss before income taxes in Note 9 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.

Overview

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

At September 30, 2012, our capital resources of \$2.0 billion consisted of \$1.8 billion of common shareholders' equity and \$250.0 million of Series B 7.5% Notes due June 1, 2017 (the "debt obligations"). Our net income was \$84.9 million and \$205.7 million for the three and nine months ended September 30, 2012, respectively, which compares with a net loss of \$53.5 million and \$231.1 million for the three and nine months ended September 30, 2011, respectively. Our results for the three and nine months ended September 30, 2012 improved over the three and nine months ended September 30, 2011 as a result of a lower level of major catastrophe losses, an increase in net favorable development on prior years' reserve balances and an increase in net realized gains on investments, partially offset by a decrease in our net investment income.

Our net premiums written were \$146.0 million and \$431.1 million for the three and nine months ended September 30, 2012, respectively, and \$177.1 million and \$497.8 million for the three and nine months ended September 30, 2011, respectively. The decrease in net premiums written for the three and nine months ended September 30, 2012 as compared with the same periods in 2011 was primarily due to the non-renewal of business that did not meet our minimum pricing standards and our desire to reduce our exposure to catastrophe events.

Current Outlook

In the Property and Marine segment, we currently believe that reinsurers generally remain well-capitalized and that competitive pressure will keep property catastrophe reinsurance rates from rising significantly during the January 1, 2013 renewal period. Accordingly, we currently expect that the portfolio of business we write in our Property and Marine segment during 2013 will be similar to our current in-force book of business. We expect that our Property and Marine segment 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 currently expect that insurance and reinsurance capacity will remain abundant and that competition will continue to limit the potential for significant increases in risk-adjusted rates. Although certain casualty rate increases appear to exceed trends in loss costs, we believe that the expected profitability of many casualty reinsurance contracts will not improve due to lower investment yields. We expect that select casualty reinsurance contracts will continue to offer adequate returns and that the portfolio of business we write in our Casualty segment during 2013 will be similar to our current in-force book of business.

Reflecting a continued lack of demand for finite risk covers, we expect to write a relatively small portfolio of business in our Finite Risk segment during 2013.

Based on our current reserve position, portfolio of in-force business, asset portfolio, and underwriting prospects for the near term, we believe that we are well capitalized with an adequate margin above the rating agency targets for a company with our ratings. If our business performs as expected, we anticipate that we may generate excess capital over time. Under those conditions, we would have the financial flexibility to expand our underwriting, hold riskier assets, or repurchase our common shares or debt securities. While we will consider the risk-adjusted pricing prevailing in the reinsurance and financial markets at the time, we currently view share repurchase as a relatively attractive use of excess capital.

Critical Accounting Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that are inherently subjective in nature 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 used in the preparation of our consolidated financial statements include premiums written and earned, unpaid losses and LAE, reinsurance recoverable, valuation of investments and income taxes. In addition, estimates are used to evaluate risk transfer for assumed and ceded reinsurance transactions. For a detailed discussion of our critical accounting estimates, please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our 2011 Form 10-K.

Results of Operations

Three Months Ended September 30, 2012 as Compared with the Three Months Ended September 30, 2011

Net income (loss) and diluted earnings (loss) per common share for the three months ended September 30, 2012 and 2011 were as follows (\$ and amounts in thousands, except diluted earnings (loss) per common share):

| | Three Months Ended | | |
|--|--------------------|------------|-------------|
| | September 30, | | |
| | 2012 | 2011 | Net change |
| Underwriting income (loss) | \$53,691 | \$(76,052) |) \$129,743 |
| Net investment income | 23,209 | 29,762 | (6,553) |
| Net realized gains on investments | 22,982 | 7,498 | 15,484 |
| Net impairment losses on investments | (699) | (4,451) |) 3,752 |
| Other revenues (expenses) | (11,766) | (12,082) |) 316 |
| Income (loss) before income taxes | 87,417 | (55,325) |) 142,742 |
| Income tax (expense) benefit | (2,553) | 1,790 | (4,343) |
| Net income (loss) | \$84,864 | \$(53,535) |) \$138,399 |
| Weighted average shares outstanding for diluted earnings (loss) per common share | 33,272 | 37,183 | (3,911) |
| Diluted earnings (loss) per common share | \$2.54 | \$(1.43) |) \$3.97 |

The net income and diluted income per common share for the three months ended September 30, 2012 as compared with the net loss and diluted loss per common share for the three months ended September 30, 2011 was primarily due to an increase in the net underwriting result attributable to a decrease in net losses from major catastrophe activity and an increase in net favorable development. In addition, there was an increase in net realized gains on investments, partially offset by a decrease in net investment income and higher income taxes. As the three months ended September 30, 2011 resulted in a net loss, the basic weighted average common shares outstanding is used in the denominator of the diluted loss per common share computation.

Underwriting Results

Net underwriting income was \$53.7 million for the three months ended September 30, 2012, which compares with a net underwriting loss of \$76.1 million for the three months ended September 30, 2011. The change in the net underwriting result was due primarily to a decrease in net losses from major catastrophes in 2012 and an increase in net favorable development.

Net losses from major catastrophes consist of gross losses and LAE, net of any retrocessional recoveries and reinstatement premiums earned.

Net favorable or unfavorable development is the development of prior years' unpaid losses and LAE and the related impact of premiums and commissions. Net favorable or unfavorable loss development excludes the related impact of the premiums and commissions.

Net losses from major catastrophes were \$6.4 million and \$122.7 million for the three months ended September 30, 2012 and 2011, respectively. Underwriting losses on our 2012 underwriting year North American crop business as a result of the severe drought conditions in the United States were \$17.6 million for the three months ended September 30, 2012. Net favorable development was \$61.3 million and \$27.8 million for the three months ended September 30, 2012 and 2011, respectively.

The following discussion and analysis reviews our underwriting results by operating segment.

Property and Marine

The following table summarizes underwriting results and ratios for the Property and Marine segment for the three months ended September 30, 2012 and 2011 (\$ in thousands):

| | Three Months Ended September 30, | | Increase (decrease) |
|--|-------------------------------------|-------------|------------------------|
| | 2012 | 2011 | |
| Gross premiums written | \$65,135 | \$102,141 | \$(37,006) |
| Ceded premiums written | 259 | 508 | (249) |
| Net premiums written | 64,876 | 101,633 | (36,757) |
| Net premiums earned | 61,900 | 85,239 | (23,339) |
| Net losses and LAE | 26,790 | 156,995 | (130,205) |
| Net acquisition expenses | 7,078 | 12,068 | (4,990) |
| Other underwriting expenses | 7,661 | 6,686 | 975 |
| Property and Marine segment underwriting income (loss) | \$20,371 | \$(90,510) | \$110,881 |
| Underwriting ratios: | | | |
| | | | (140.9) |
| Net loss and LAE | 43.3 | % 184.2 | % points |
| Net acquisition expense | 11.4 | % 14.2 | % (2.8) points |
| Other underwriting expense | 12.4 | % 7.8 | % 4.6 points |
| | | | (139.1) |
| Combined | 67.1 | % 206.2 | % points |

The Property and Marine segment underwriting result improved by \$110.9 million for the three months ended September 30, 2012 as compared with the three months ended September 30, 2011, primarily due to a decrease in net losses from major catastrophes. Net losses from major catastrophes were \$6.4 million and \$122.7 million for the three months ended September 30, 2012 and 2011, respectively. Net losses from major catastrophes for the three months ended September 30, 2012 were primarily attributable to Hurricane Isaac and Property Claims Services (“PCS”) Catastrophe 83, a U.S. multi-day straight line wind and thunderstorm event. Net losses from major catastrophes were partially offset by a reduction in first and second quarter 2012 major catastrophe loss estimates. Underwriting losses on our 2012 underwriting year North American crop business resulting from the severe drought conditions in the United States were \$17.6 million for the three months ended September 30, 2012. Net losses from major catastrophes for the three months ended September 30, 2011 were attributable to Hurricane Irene and increases in first and second quarter 2011 major catastrophe loss estimates.

Net favorable development was \$20.9 million and \$12.9 million for the three months ended September 30, 2012 and 2011, respectively.

Excluding net losses from major catastrophes and net favorable development, Property and Marine segment underwriting income was impacted by changes in the mix of business resulting in an increase in the combined ratio. The combined ratio was also impacted by a decrease in non-major catastrophe losses as compared with the same period in 2011.

Net Premiums Written and Earned

The Property and Marine segment generated 44.4% and 57.4% of our net premiums written for the three months ended September 30, 2012 and 2011, respectively. Gross premiums written decreased by \$37.0 million for the three months ended September 30, 2012 as compared with the three months ended September 30, 2011, and decreased by \$32.4 million when excluding reinstatement premiums written related to major catastrophes of \$2.3 million and \$6.9 million for the three months ended September 30, 2012 and 2011, respectively. The decrease in gross premiums written, excluding reinstatement premiums, was primarily due to decreases in the catastrophe excess-of-loss classes and resulted from fewer opportunities that met our underwriting standards and our desire to reduce our exposure to catastrophe events. Net premiums earned decreased by \$23.3 million for the three months ended September 30, 2012 as compared with the same period in 2011, primarily as a result of decreases in net premiums written in current and prior periods. Net premiums written and earned were also impacted by changes in the mix of business and the structure of the underlying reinsurance contracts.

Net Losses and LAE

Net losses and LAE decreased by \$130.2 million for the three months ended September 30, 2012 as compared with the three months ended September 30, 2011. The decrease in net losses and LAE was primarily due to a decrease in net losses from major catastrophes of \$120.7 million, a decrease in non-major catastrophe losses and an increase in net favorable loss development, partially offset by underwriting losses on our 2012 underwriting year North American crop business resulting from the severe drought conditions in the United States. The following table sets forth the components of pre-tax net losses by major catastrophe for the three months ended September 30, 2012 (\$ in thousands):

| Major Catastrophe | Net Losses and LAE | Reinstatement Premiums Earned | Net Losses from Major Catastrophes |
|--------------------|--------------------|-------------------------------|------------------------------------|
| PCS Catastrophe 83 | \$(6,736) | \$ 1,107 | \$(5,629) |
| Hurricane Isaac | (3,101) | 324 | (2,777) |

Decrease in First and Second Quarter 2012 Catastrophe Estimates:

| | | | |
|----------------------------|------------|----------|-------------|
| PCS Catastrophes 66 and 67 | 1,096 | 398 | 1,494 |
| PCS Catastrophe 74 | 81 | 427 | 508 |
| Total | \$(8,660) | \$ 2,256 | \$ (6,404) |

The following table sets forth the components of pre-tax net losses by major catastrophe for the three months ended September 30, 2011 (\$ in thousands):

| Major Catastrophe | Net Losses and LAE | Reinstatement Premiums Earned | Net Losses from Major Catastrophes |
|--|-----------------------|-------------------------------------|--|
| Hurricane Irene | \$(15,154) | \$ 561 | \$ (14,593) |
| Increase in First and Second Quarter 2011 Catastrophe Estimates: | | | |
| Japan earthquake | (34,045) | (101) | (34,146) |
| June New Zealand earthquake | (27,183) | - | (27,183) |
| February New Zealand earthquake | (30,659) | 3,792 | (26,867) |
| U.S. tornadoes | (15,326) | 2,640 | (12,686) |
| Denmark floods | (6,700) | - | (6,700) |
| Cyclone Yasi | 126 | (609) | (483) |
| Australian floods | (378) | 373 | (5) |
| Total | \$(129,319) | \$ 6,656 | \$ (122,663) |

Net losses from major catastrophes, with related premium adjustments, increased the net loss and LAE ratio by 12.9 points and 148.9 points for the three months ended September 30, 2012 and 2011, respectively.

Underwriting losses on our 2012 underwriting year North American crop business resulting from the severe drought conditions in the United States were \$17.6 million for the three months ended September 30, 2012 compared with no underwriting income or loss on our 2011 underwriting year North American crop business for the three months ended September 30, 2011.

Net favorable loss development was \$20.8 million and \$13.9 million for the three months ended September 30, 2012 and 2011, respectively. Net favorable loss development and related premium adjustments decreased the net loss and LAE ratio by 33.1 points and 15.2 points for the three months ended September 30, 2012 and 2011, respectively. Net favorable loss development for the three months ended September 30, 2012 and 2011 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 September 30, 2012 by class of business (\$ in thousands):

| Class of Business | Net Losses and LAE | Net | | |
|---|--------------------|---------------------|--------------|-----------------|
| | | Acquisition Expense | Net Premiums | Net Development |
| Major catastrophes | \$11,281 | \$(13) | \$(648) | \$ 10,620 |
| Catastrophe excess-of-loss (non-major events) | 5,122 | 287 | 105 | 5,514 |
| Property per risk excess-of-loss | 1,878 | 18 | 391 | 2,287 |
| Marine, aviation and satellite | 2,334 | 107 | (224) | 2,217 |
| Other | 198 | 49 | - | 247 |
| Total | \$20,813 | \$448 | \$(376) | \$ 20,885 |

Net favorable development in the major catastrophes class arose primarily from the 2011 earthquake in Japan. Net favorable development in the catastrophe excess-of-loss (non-major events) class arose primarily from international business in the 2011 underwriting year. Net favorable development in the property per risk excess-of-loss class arose primarily from the North American business on the 2007 underwriting year. Net favorable development in the marine, aviation and satellite class arose from most prior underwriting years with a change in loss development patterns contributing \$0.8 million to the net favorable development.

The following table sets forth the net favorable (unfavorable) development for the three months ended September 30, 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 | \$5,466 | \$36 | \$(130) | \$ 5,372 |
| Catastrophe excess-of-loss (non-major events) | 3,221 | (55) | 124 | 3,290 |
| Major catastrophes | 1,905 | (2) | (28) | 1,875 |
| Marine, aviation and satellite | 2,034 | (316) | (470) | 1,248 |
| Property proportional | 1,208 | (129) | - | 1,079 |
| Other | 106 | (44) | - | 62 |
| Total | \$13,940 | \$(510) | \$(504) | \$ 12,926 |

Net favorable development in the property per risk excess-of-loss class arose primarily from the 2009 and 2010 underwriting years. Net favorable development in the catastrophe excess-of-loss (non-major events) class arose primarily from international business in the 2010 underwriting year. Net favorable development in the major catastrophes class arose primarily from events that occurred in 2009 and 2010, partially offset by unfavorable development from 2005 events. Net favorable development in the marine, aviation and satellite class arose primarily from the marine classes from most prior underwriting years. Net favorable development in the property proportional class arose primarily from international business in the 2008 through 2010 underwriting years, and included a change in the pattern of expected reported losses of \$0.5 million.

Net Acquisition Expenses

Net acquisition expenses and related net acquisition expense ratios were \$7.1 million and 11.4%, respectively, for the three months ended September 30, 2012 and \$12.1 million and 14.2%, respectively, for the three months ended September 30, 2011. The decrease in net acquisition expenses was primarily due to the decrease in net premiums earned as compared with the same period in 2011. Net acquisition expenses and related net acquisition expense ratios were also impacted by changes in the mix of business.

Other Underwriting Expenses

Other underwriting expenses were \$7.7 million and \$6.7 million for the three months ended September 30, 2012 and 2011, respectively. The increase was primarily the result of an increase in compensation accruals due to the Company's stronger return on equity in 2012 versus 2011.

Casualty

The following table summarizes underwriting results and ratios for the Casualty segment for the three months ended September 30, 2012 and 2011 (\$ in thousands):

| | Three Months Ended September 30, | | | Increase (decrease) |
|--------------------------------------|-------------------------------------|----------|---|------------------------|
| | 2012 | 2011 | | |
| Net premiums written | \$72,358 | \$72,689 | | \$(331) |
| Net premiums earned | 70,326 | 78,021 | | (7,695) |
| Net losses and LAE | 14,358 | 42,704 | | (28,346) |
| Net acquisition expenses | 16,710 | 16,780 | | (70) |
| Other underwriting expenses | 5,662 | 4,300 | | 1,362 |
| Casualty segment underwriting income | \$33,596 | \$14,237 | | \$19,359 |
| Underwriting ratios: | | | | |
| | | | | (34.3) |
| Net loss and LAE | 20.4 | % 54.7 | % | points |
| Net acquisition expense | 23.8 | % 21.5 | % | 2.3 points |
| Other underwriting expense | 8.1 | % 5.5 | % | 2.6 points |
| | | | | (29.4) |
| Combined | 52.3 | % 81.7 | % | points |

The Casualty segment underwriting income increased by \$19.4 million for the three months ended September 30, 2012 as compared with the three months ended September 30, 2011, as a result of an increase in net favorable development. Net favorable development was \$40.3 million and \$15.0 million for the three months ended September 30, 2012 and 2011, respectively.

Excluding net favorable development, Casualty segment underwriting income was impacted by changes in the mix of business. The combined ratio was also impacted by an increase in the financial lines combined ratio as compared with the same period in 2011.

Net Premiums Written and Earned

The Casualty segment generated 49.6% and 41.0% of our net premiums written for the three months ended September 30, 2012 and 2011, respectively. Net premiums written decreased by \$0.3 million for the three months ended September 30, 2012 as compared with the three months ended September 30, 2011. Net premiums earned decreased as a result of the decreases in net premiums written in current and prior periods. Net premiums written and earned were also impacted by changes in the mix of business and the structure of the underlying reinsurance contracts.

Net Losses and LAE

Net losses and LAE decreased by \$28.3 million for the three months ended September 30, 2012 as compared with the three months ended September 30, 2011. Net favorable loss development was \$40.0 million and \$14.5 million for the three months ended September 30, 2012 and 2011, respectively. Net favorable loss development and related premium adjustments decreased the net loss and LAE ratios by 57.3 points and 18.7 points for the three months ended September 30, 2012 and 2011, respectively. Net favorable loss development for the three months ended September 30, 2012 and 2011 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 impacted by changes in the mix of business and an increase in the financial lines loss ratio.

The following table sets forth the net favorable (unfavorable) development for the three months ended September 30, 2012 by class of business (\$ in thousands):

| Class of Business | Net Losses and LAE | Net | | Net Development |
|----------------------------|-----------------------|------------------------|-----------------|--------------------|
| | | Acquisition Expense | Net Premiums | |
| North American claims made | \$22,278 | \$ (94) | \$- | \$ 22,184 |
| North American umbrella | 13,233 | 4 | - | 13,237 |
| Financial lines | 6,393 | (86) | (150) | 6,157 |
| North American occurrence | (1,579) | (48) | 22 | (1,605) |
| Other | (370) | 169 | 545 | 344 |
| Total | \$39,955 | \$ (55) | \$417 | \$ 40,317 |

Net favorable development in the North American claims made class arose primarily from the 2004 through 2009 underwriting years with a change in loss development patterns contributing \$4.6 million to the net favorable development. Net favorable development in the North American umbrella class arose primarily from the 2003 through 2006 underwriting years with a change in loss development patterns contributing \$9.6 million to the net favorable development. Net favorable development in the financial lines class arose primarily from the 2006 and 2010 underwriting years. Net unfavorable development in the North American occurrence class arose primarily from a change in loss development patterns which contributed \$1.2 million to the net unfavorable development.

The following table sets forth the net favorable (unfavorable) development for the three months ended September 30, 2011 by class of business (\$ in thousands):

| Class of Business | Net Losses and LAE | Net | | Net Development |
|--|--------------------|---------------------|--------------|-----------------|
| | | Acquisition Expense | Net Premiums | |
| North American claims made | \$6,575 | \$ 109 | \$43 | \$ 6,727 |
| North American occurrence excess-of-loss | 3,057 | (23) | 16 | 3,050 |
| Financial lines | 3,224 | 50 | (352) | 2,922 |
| North American umbrella | 1,573 | (21) | - | 1,552 |
| International motor excess | 823 | - | - | 823 |
| Other | (767) | 294 | 414 | (59) |
| Total | \$14,485 | \$ 409 | \$121 | \$ 15,015 |

Net favorable development in the North American claims made class arose primarily from the 2003, 2006 and 2007 underwriting years. Net favorable development in the North American occurrence excess-of-loss class arose primarily from the 2002 underwriting year. Net favorable development in the financial lines class arose primarily from the 2009 underwriting year in the North American surety class. Net favorable development in the North American umbrella class arose primarily from the 2003 and 2005 underwriting years. Net favorable development in the international motor excess class arose primarily from a change in the pattern of expected reported losses from the 2008 and prior underwriting years.

Net Acquisition Expenses

Net acquisition expenses and related net acquisition expense ratios were \$16.7 million and 23.8%, respectively, for the three months ended September 30, 2012 and \$16.8 million and 21.5%, respectively, for the three months ended September 30, 2011. Net acquisition expenses and related net acquisition expense ratios were impacted by changes in the mix of business.

Other Underwriting Expenses

Other underwriting expenses were \$5.7 million and \$4.3 million for the three months ended September 30, 2012 and 2011, respectively. The increase was primarily the result of an increase in compensation accruals due to the Company's stronger return on equity in 2012 versus 2011.

Finite Risk

The following table summarizes underwriting results and ratios for the Finite Risk segment for the three months ended September 30, 2012 and 2011 (\$ in thousands):

| | Three Months Ended | | Increase (decrease) |
|--|--------------------|---------|---------------------|
| | 2012 | 2011 | |
| Net premiums written | \$8,745 | \$2,802 | \$5,943 |
| Net premiums earned | 6,362 | 3,553 | 2,809 |
| Net losses and LAE | 3,969 | 1,754 | |
| Net acquisition expenses | 2,380 | 1,360 | |
| Net losses, LAE and acquisition expenses | 6,349 | 3,114 | 3,235 |

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| | | | | | |
|--|--------|---|-------|---|--------------|
| Other underwriting expenses | 289 | | 218 | | 71 |
| Finite Risk segment underwriting income (loss) | \$(276 |) | \$221 | | \$(497) |
| Underwriting ratios: | | | | | |
| Net loss and LAE | 62.4 | % | 49.4 | % | |
| Net acquisition expense | 37.4 | % | 38.3 | % | |
| Net loss, LAE and acquisition expense | 99.8 | % | 87.7 | % | 12.1 points |
| Other underwriting expense | 4.5 | % | 6.1 | % | (1.6) points |
| Combined | 104.3 | % | 93.8 | % | 10.5 points |

During the three months ended September 30, 2012 and 2011, the in-force Finite Risk portfolio consisted of one contract and we expect minor activity in this segment in the foreseeable future due to the relatively low level of demand for finite risk products. 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. Due to the decline in premium volume in recent years, current year ratios may be significantly impacted by relatively small adjustments of prior years' reserves.

Net Premiums Written and Earned

The Finite Risk segment generated 6.0% and 1.6% of our net premiums written for the three months ended September 30, 2012 and 2011, respectively. The increases in net premiums written and net premiums earned for the three months ended September 30, 2012 as compared with the three months ended September 30, 2011 were attributable to an increase in the reported premium and an increase in our estimates of premium written and earned relating to the one in-force contract.

Net Losses and LAE and Acquisition Expenses

Net losses, LAE and acquisition expenses increased by \$3.2 million for the three months ended September 30, 2012 as compared with the three months ended September 30, 2011, primarily due to an increase in net premiums earned. A change in underwriting conditions resulted in an increase in the loss and loss adjustment expense ratio for the current period.

Non-Underwriting Results

Net Investment Income

Net investment income was \$23.2 million and \$29.8 million for the three months ended September 30, 2012 and 2011, respectively. The decrease during the three months ended September 30, 2012, as compared with the same period in 2011 resulted primarily from a decrease in the average book yield for the portfolio from 2.9% in the third quarter of 2011 to 2.4% in the third quarter of 2012. We also had a reduction of approximately \$275.0 million in the average book value of our investments and cash and cash equivalents for the three months ended September 30, 2012 as compared with the same period in 2011.

Net Realized Gains on Investments

Net realized gains on investments were \$23.0 million and \$7.5 million for the three months ended September 30, 2012 and 2011, respectively. Sales of investments resulted in net realized gains of \$23.0 million for the three months ended September 30, 2012 and included \$16.7 million from the sale of municipal bonds, \$3.7 million from the sale of corporate bonds and \$2.3 million from the sale of commercial mortgage-backed securities ("CMBS"). There was no net impact from mark-to-market adjustments on trading securities for the three months ended September 30, 2012. Sales of investments resulted in net realized gains of \$3.9 million for the three months ended September 30, 2011, primarily from U.S. Treasury Inflation-Protected Securities ("TIPS"). The net positive impact from mark-to-market adjustments on trading securities of \$3.6 million for the three months ended September 30, 2011 were related primarily to non-U.S. government securities.

Net Impairment Losses on Investments

Net impairment losses on investments were \$0.7 million and \$4.5 million for the three months ended September 30, 2012 and 2011, respectively. The net impairment losses reflect other-than-temporary impairments attributable to credit losses on impaired securities that relate exclusively to investments in securitized mortgages not guaranteed by U.S. government agencies. The net impairment losses recorded for the three months ended September 30, 2012 related substantially all to non-agency residential mortgage-backed securities ("RMBS"). The net impairment losses recorded for the three months ended September 30, 2011 included \$3.9 million related to non-agency RMBS and \$0.6 million related to sub-prime asset-backed securities ("ABS").

Net Changes in Fair Value of Derivatives

There were no net changes in the fair value of derivatives for the three months ended September 30, 2012 as we did not hold any derivatives during this period. Net changes in the fair value of derivatives resulted in an expense of \$4.5 million for the three months ended September 30, 2011. The net changes in the fair value of derivatives for the three months ended September 30, 2011 were primarily attributable to expenses of \$2.9 million related to put options on treasury futures that were purchased to temporarily protect our investment portfolio against a sudden increase in interest rates. In addition, expenses of \$1.8 million related to a decrease in the fair value of a derivative agreement with Topiary Capital Limited that was used to manage our exposure to certain underwriting risks until it expired on July 31, 2011.

Operating Expenses

Non-underwriting operating expenses were \$6.4 million and \$3.6 million for the three months ended September 30, 2012 and 2011, respectively, and related to costs such as compensation and other corporate expenses associated with operating as a publicly-traded company. The increase was primarily the result of an increase in compensation accruals due to the Company's stronger return on equity in 2012 versus 2011.

Interest Expense

Interest expense was \$4.8 million for both the three months ended September 30, 2012 and 2011 and related to our \$250.0 million of debt obligations.

Income Taxes

Income tax expense was \$2.6 million for the three months ended September 30, 2012 and income tax benefit was \$1.8 million for the three months ended September 30, 2011. Our effective tax rate was 2.9% and (3.2%) for the three months ended September 30, 2012 and 2011, respectively. Income tax expense or benefit is primarily driven by the taxable income or loss generated by our U.S.-based subsidiaries. The income tax expense or benefit rate is driven by the portion of taxable income or loss generated by our U.S.-based subsidiaries relative to the income or loss generated by our Bermuda-based operations, which are not subject to corporate income tax. Premiums earned by our U.S. and Bermuda-based subsidiaries generally do not bear a proportionate relationship to their respective pre-tax income for a variety of reasons, including the significant impact on pre-tax income of the different mixes of business underwritten by the particular subsidiary, the presence or absence of underwriting income or loss attributable to such business, and the investment results experienced by the particular subsidiary.

Pre-tax income was \$79.9 million and \$7.5 million in our Bermuda and U.S. companies, respectively, for the three months ended September 30, 2012. Pre-tax loss was \$52.7 million and \$2.5 million in our Bermuda and U.S. companies, respectively, for the three months ended September 30, 2011.

Nine Months Ended September 30, 2012 as Compared with the Nine Months Ended September 30, 2011

Net income (loss) and diluted earnings (loss) per common share for the nine months ended September 30, 2012 and 2011 were as follows (\$ and amounts in thousands, except diluted earnings (loss) per common share):

| | Nine Months Ended September 30, | | |
|--|------------------------------------|--------------|------------|
| | 2012 | 2011 | Net change |
| Underwriting income (loss) | \$ 104,400 | \$(293,007) | \$ 397,407 |
| Net investment income | 77,916 | 96,105 | (18,189) |
| Net realized gains on investments | 70,299 | 3,216 | 67,083 |
| Net impairment losses on investments | (2,882) | (7,624) | 4,742 |
| Other revenues (expenses) | (33,475) | (31,131) | (2,344) |
| Income (loss) before income taxes | 216,258 | (232,441) | 448,699 |
| Income tax expense (benefit) | (10,575) | 1,313 | (11,888) |
| Net income (loss) | \$ 205,683 | \$(231,128) | \$ 436,811 |
| Weighted average shares outstanding for diluted earnings (loss) per common share | 34,286 | 37,165 | (2,879) |
| Diluted earnings (loss) per common share | \$ 5.98 | \$(6.18) | \$ 12.16 |

The net income and diluted income per common share for the nine months ended September 30, 2012 as compared with the net loss and diluted loss per common share for the nine months ended September 30, 2011 was primarily due to an increase in the net underwriting result attributable to a significant decrease in net losses from major catastrophe activity and an increase in net favorable development. In addition, there was an increase in net realized gains on investments, partially offset by a decrease in net investment income and higher income taxes. As the nine months ended September 30, 2011 resulted in a net loss, the basic weighted average common shares outstanding is used in the denominator of the diluted loss per common share computation.

Underwriting Results

Net underwriting income was \$104.4 million for the nine months ended September 30, 2012, which compares with a net underwriting loss of \$293.0 million for the nine months ended September 30, 2011. The change in the net underwriting result was due primarily to a significant decrease in net losses from major catastrophes in 2012 and an increase in net favorable development.

Net losses from major catastrophes were \$35.8 million and \$454.7 million for the nine months ended September 30, 2012 and 2011, respectively. Underwriting losses on our 2012 underwriting year North American crop business as a result of the severe drought conditions in the United States were \$17.6 million for the nine months ended September 30, 2012. Net favorable development was \$112.3 million and \$77.3 million for the nine months ended September 30, 2012 and 2011, respectively.

The following discussion and analysis reviews our underwriting results by operating segment.

Property and Marine

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The following table summarizes underwriting results and ratios for the Property and Marine segment for the nine months ended September 30, 2012 and 2011 (\$ in thousands):

| | Nine Months Ended September 30, | | Increase (decrease) |
|--|------------------------------------|--------------|------------------------|
| | 2012 | 2011 | |
| Gross premiums written | \$195,110 | \$302,597 | \$(107,487) |
| Ceded premiums written | 386 | 34,751 | (34,365) |
| Net premiums written | 194,724 | 267,846 | (73,122) |
| Net premiums earned | 186,066 | 274,996 | (88,930) |
| Net losses and LAE | 85,380 | 551,868 | (466,488) |
| Net acquisition expenses | 25,034 | 37,703 | (12,669) |
| Other underwriting expenses | 21,950 | 21,281 | 669 |
| Property and Marine segment underwriting income (loss) | \$53,702 | \$(335,856) | \$389,558 |
| Underwriting ratios: | | | |
| | | | (154.8) |
| Net loss and LAE | 45.9 | % 200.7 | % points |
| Net acquisition expense | 13.5 | % 13.7 | % (0.2) points |
| Other underwriting expense | 11.8 | % 7.7 | % 4.1 points |
| | | | (150.9) |
| Combined | 71.2 | % 222.1 | % points |

The Property and Marine segment underwriting result improved by \$389.6 million for the nine months ended September 30, 2012 as compared with the nine months ended September 30, 2011, primarily due to a decrease in net losses from major catastrophes. Net losses from major catastrophes were \$35.8 million and \$454.7 million for the nine months ended September 30, 2012 and 2011, respectively. Net losses from major catastrophes for the nine months ended September 30, 2012 were attributable to PCS Catastrophes 66 and 67, tornado and hailstorm events affecting primarily Kentucky and Tennessee that occurred in February and March 2012, PCS Catastrophe 74, a tornado and hailstorm event in Missouri, Illinois, Kentucky, Texas and Indiana that occurred in April 2012, PCS Catastrophe 83 and Hurricane Isaac. Underwriting losses on our 2012 underwriting year North American crop business as a result of the severe drought conditions in the United States were \$17.6 million for the nine months ended September 30, 2012. Net losses from major catastrophes for the nine months ended September 30, 2011 related primarily to the February and June earthquakes in New Zealand, the earthquake in Japan, U.S. tornadoes, Australian floods and Cyclone Yasi.

Net favorable development was \$43.6 million and \$29.9 million for the nine months ended September 30, 2012 and 2011, respectively.

Excluding net losses from major catastrophes and net favorable development, Property and Marine segment underwriting income was also impacted by changes in the mix of business resulting in an increase in the combined ratio. The combined ratio was also impacted by a decrease in non-major catastrophe losses as compared with the same period in 2011.

Net Premiums Written and Earned

The Property and Marine segment generated 45.2% and 53.8% of our net premiums written for the nine months ended September 30, 2012 and 2011, respectively. Gross premiums written decreased by \$107.5 million for the nine months ended September 30, 2012 as compared with the nine months ended September 30, 2011, and by \$85.9 million when considering reinstatement premiums written related to major catastrophes of \$4.8 million and \$26.3 million for the nine months ended September 30, 2012 and 2011, respectively. The decrease in gross premiums written, excluding reinstatement premiums, was due to decreases across most classes of business, most significantly in the catastrophe excess-of-loss classes as compared with the same period in 2011 and resulted from fewer opportunities that met our underwriting standards and our desire to reduce our exposure to catastrophe events. The decrease in ceded premiums written was due to a decrease in retrocessional reinsurance purchased for the nine months ended September 30, 2012 as compared with the same period in 2011. Net premiums earned decreased by \$88.9 million for the nine months ended September 30, 2012 as compared with the same period in 2011, primarily as a result of decreases in net premiums written in current and prior periods. Net premiums written and earned were also impacted by changes in the mix of business and the structure of the underlying reinsurance contracts.

Net Losses and LAE

Net losses and LAE decreased by \$466.5 million for the nine months ended September 30, 2012 as compared with the nine months ended September 30, 2011. The decrease in net losses and LAE was primarily due to a decrease in net losses from major catastrophes of \$440.3 million, a decrease in non-major catastrophe losses and an increase in net favorable loss development, partially offset by underwriting losses on our 2012 underwriting year North American crop business as a result of the severe drought conditions in the United States. The following table sets forth the components of pre-tax net losses by major catastrophe for the nine months ended September 30, 2012 (\$ in thousands):

| Major Catastrophe | Net Losses and LAE | Reinstatement Premiums | Net Losses from Major |
|-------------------|--------------------|------------------------|-----------------------|
|-------------------|--------------------|------------------------|-----------------------|

| | | Earned | Catastrophes |
|----------------------------|-------------|----------|--------------|
| PCS Catastrophes 66 and 67 | \$(20,706) | \$ 2,569 | \$ (18,137) |
| PCS Catastrophe 74 | (9,764) | 526 | (9,238) |
| PCS Catastrophe 83 | (6,736) | 1,107 | (5,629) |
| Hurricane Isaac | (3,101) | 324 | (2,777) |
| Total | \$(40,307) | \$ 4,526 | \$ (35,781) |

The following table sets forth the components of pre-tax net losses by major catastrophe for the nine months ended September 30, 2011 (\$ in thousands):

| Major Catastrophe | Net Losses and LAE | Reinstatement Premiums Earned | Net Losses from Major Catastrophes |
|---------------------------------|--------------------|-------------------------------|------------------------------------|
| February New Zealand earthquake | \$(207,832) | \$ 11,133 | \$ (196,699) |
| Japan earthquake* | (132,989) | 5,651 | (127,338) |
| U.S. tornadoes | (50,389) | 5,476 | (44,913) |
| June New Zealand earthquake | (32,713) | - | (32,713) |
| Australian floods | (20,579) | 2,149 | (18,430) |
| Hurricane Irene | (15,154) | 561 | (14,593) |
| Cyclone Yasi | (14,209) | 906 | (13,303) |
| Denmark floods | (6,700) | - | (6,700) |
| Total | \$(480,565) | \$ 25,876 | \$ (454,689) |

* Includes \$35.0 million of retrocessional recoveries.

During the fourth quarter of 2011, the Company revised its estimates of pre-tax net losses from major catastrophes for the nine months ended September 30, 2011. At December 31, 2011, the Company's estimates of pre-tax net losses were \$208.5 million for the February New Zealand earthquake, \$143.6 million for the Japan earthquake, \$43.0 million for the U.S. tornadoes, \$33.7 million for the June New Zealand earthquake, \$16.5 million for the Australian floods, \$12.0 million for Hurricane Irene, \$13.5 million for Cyclone Yasi and \$10.4 million for the Denmark floods.

Net losses from major catastrophes, with related premium adjustments, increased the net loss and LAE ratio by 21.0 points and 172.0 points for nine months ended September 30, 2012 and 2011, respectively.

Underwriting losses on our 2012 underwriting year North American crop business as a result of the severe drought conditions in the United States were \$17.6 million for the nine months ended September 30, 2012 compared with no underwriting income or loss on our 2011 underwriting year North American crop business for the nine months ended September 30, 2011.

Net favorable loss development was \$39.3 million and \$31.3 million for nine months ended September 30, 2012 and 2011, respectively. Net favorable loss development and related premium adjustments decreased the net loss and LAE ratio by 22.6 points and 10.7 points for the nine months ended September 30, 2012 and 2011, respectively. Net favorable loss development for the nine months ended September 30, 2012 and 2011 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 nine months ended September 30, 2012 by class of business (\$ in thousands):

| Class of Business | Net Losses and LAE | Net | | |
|---|--------------------|---------------------|--------------|-----------------|
| | | Acquisition Expense | Net Premiums | Net Development |
| Major catastrophes | \$13,572 | \$(37) | \$29 | \$ 13,564 |
| Catastrophe excess-of-loss (non-major events) | 10,902 | 279 | 382 | 11,563 |
| Property per risk excess-of-loss | 8,227 | (6) | 1,726 | 9,947 |
| Marine, aviation and satellite | 3,068 | 4 | 1,972 | 5,044 |
| Property proportional | 2,997 | (108) | - | 2,889 |
| Other | 536 | 9 | - | 545 |
| Total | \$39,302 | \$ 141 | \$4,109 | \$ 43,552 |

Net favorable development in the major catastrophes class arose primarily from the 2011 earthquake in Japan. Net favorable development in the catastrophe excess-of-loss (non-major events) class arose primarily from the 2010 and 2011 underwriting years. Net favorable development in the property per risk excess-of-loss class arose from the 2006 through 2010 underwriting years. Net favorable development in the marine, aviation and satellite class arose primarily from the 2006 through 2008 underwriting years with a change in loss development patterns contributing \$0.8 million to the net favorable development. Net favorable development in the property proportional class arose primarily from the 2008 through 2010 underwriting years.

The following table sets forth the net favorable (unfavorable) development for the nine months ended September 30, 2011 by class of business (\$ in thousands):

| Class of Business | Net Losses and LAE | Net | | |
|---|--------------------|---------------------|--------------|-----------------|
| | | Acquisition Expense | Net Premiums | Net Development |
| Major catastrophes | \$16,326 | \$(10) | \$(355) | \$ 15,961 |
| Property per risk excess-of-loss | 12,180 | 292 | 45 | 12,517 |
| Property proportional | 5,259 | (182) | - | 5,077 |
| Crop | 1,923 | (164) | - | 1,759 |
| Marine, aviation and satellite | 2,250 | (324) | (308) | 1,618 |
| Catastrophe excess-of-loss (non-major events) | (6,590) | (126) | (283) | (6,999) |

| | | | | | | |
|-------|----------|--------|---|--------|---|-----------|
| Total | \$31,348 | \$(514 |) | \$(901 |) | \$ 29,933 |
|-------|----------|--------|---|--------|---|-----------|

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. Net favorable development in the property per risk excess-of-loss class arose from most prior underwriting years. Net favorable development in the property proportional class arose primarily from the 2008 and 2009 underwriting years, with a change in the expected loss ratios contributing \$0.7 million of the net favorable development. Net favorable development in the crop class arose primarily from North American business in the 2010 underwriting year. Net favorable development in the marine, aviation and satellite class arose primarily from the 2005 through 2007 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, partially offset by North American business and international business prior to 2010.

Net Acquisition Expenses

Net acquisition expenses and related net acquisition expense ratios were \$25.0 million and 13.5%, respectively, for the nine months ended September 30, 2012 and \$37.7 million and 13.7%, respectively, for the nine months ended September 30, 2011. The decrease in net acquisition expenses was primarily due to the decrease in net premiums earned as compared with the same period in 2011. Net acquisition expenses and related net acquisition expense ratios were also impacted by changes in the mix of business.

Other Underwriting Expenses

Other underwriting expenses were \$22.0 million and \$21.3 million for the nine months ended September 30, 2012 and 2011, respectively. The increase was primarily the result of an increase in compensation accruals due to the Company's stronger return on equity in 2012 versus 2011.

Casualty

The following table summarizes underwriting results and ratios for the Casualty segment for the nine months ended September 30, 2012 and 2011 (\$ in thousands):

| | Nine Months Ended | | Increase (decrease) |
|--------------------------------------|-------------------|-----------|------------------------|
| | September 30, | | |
| | 2012 | 2011 | |
| Net premiums written | \$219,436 | \$222,442 | \$(3,006) |
| Net premiums earned | 221,838 | 235,949 | (14,111) |
| Net losses and LAE | 101,245 | 126,191 | (24,946) |
| Net acquisition expenses | 52,572 | 53,487 | (915) |
| Other underwriting expenses | 16,323 | 14,461 | 1,862 |
| Casualty segment underwriting income | \$51,698 | \$41,810 | \$9,888 |
| Underwriting ratios: | | | |
| Net loss and LAE | 45.6 | % 53.5 | % (7.9) points |
| Net acquisition expense | 23.7 | % 22.7 | % 1.0 points |
| Other underwriting expense | 7.4 | % 6.1 | % 1.3 points |
| Combined | 76.7 | % 82.3 | % (5.6) points |

The Casualty segment underwriting income increased by \$9.9 million for the nine months ended September 30, 2012 as compared with the nine months ended September 30, 2011, as a result of an increase in net favorable development. Net favorable development was \$68.6 million and \$46.4 million for the nine months ended September 30, 2012 and 2011, respectively.

Excluding net favorable development, Casualty segment underwriting income was impacted by changes in the mix of business. The combined ratio was also impacted by an increase in the financial lines combined ratio as compared with the same period in 2011.

Net Premiums Written and Earned

The Casualty segment generated 50.9% and 44.7% of our net premiums written for the nine months ended September 30, 2012 and 2011, respectively. Net premiums written decreased by \$3.0 million for the nine months ended September 30, 2012 as compared with the nine months ended September 30, 2011. The net premiums written in the nine months ended September 30, 2012 and 2011 were impacted by increases to prior years' premium estimates of \$30.0 million and \$11.3 million, respectively. Excluding the impact of increases to prior years' premium estimates, net premiums written decreased by \$21.7 million primarily due to fewer opportunities that met our underwriting standards. The net premiums earned in the nine months ended September 30, 2012 and 2011 were also impacted by increases to prior years' premium estimates of \$20.6 million and \$5.2 million, respectively. Excluding the impact of increases to prior years' premium estimates, net premiums earned decreased by \$29.5 million. Net premiums earned decreased as a result of the decreases in net premiums written in current and prior periods. Net premiums written and earned were also impacted by changes in the mix of business and the structure of the underlying reinsurance contracts.

Net Losses and LAE

Net losses and LAE decreased by \$24.9 million for the nine months ended September 30, 2012 as compared with the nine months ended September 30, 2011, primarily due to an increase in net favorable loss development. Net favorable

loss development was \$67.7 million and \$45.3 million for the nine months ended September 30, 2012 and 2011, respectively. Net favorable loss development and related premium adjustments decreased the net loss and LAE ratios by 31.2 points and 19.4 points for the nine months ended September 30, 2012 and 2011, respectively. Net favorable loss development for the nine months ended September 30, 2012 and 2011 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 impacted by changes in the mix of business and an increase in the financial lines loss ratio.

The following table sets forth the net favorable (unfavorable) development for the nine months ended September 30, 2012 by class of business (\$ in thousands):

| Class of Business | Net Losses and LAE | Net | | Net Development |
|----------------------------|-----------------------|------------------------|-----------------|--------------------|
| | | Acquisition Expense | Net Premiums | |
| North American claims made | \$42,864 | \$ (1,478) | \$ 739 | \$ 42,125 |
| North American umbrella | 23,845 | 430 | - | 24,275 |
| Financial lines | 5,676 | (369) | 460 | 5,767 |
| North American occurrence | 2,842 | (192) | 41 | 2,691 |
| Accident and health | 933 | 552 | - | 1,485 |
| International casualty | (8,219) | 74 | 295 | (7,850) |
| Other | (258) | (32) | 441 | 151 |
| Total | \$67,683 | \$ (1,015) | \$ 1,976 | \$ 68,644 |

Net favorable development in the North American claims made class arose primarily from the 2004 through 2009 underwriting years with a change in loss development patterns contributing \$4.6 million to the net favorable development. Net favorable development in the North American umbrella class arose primarily from the 2003 through 2007 underwriting years with a change in loss development patterns contributing \$9.6 million to the net favorable development. Net favorable development in the financial lines class arose primarily from the 2006 and 2010 underwriting years. Net favorable development in the North American occurrence class arose primarily from the 2002, 2003 and 2007 underwriting years, partially offset by unfavorable development in the 2004 through 2006 underwriting years. The unfavorable development included a change in loss development patterns of \$0.8 million. Net favorable development in the accident and health class arose primarily from the 2009 and 2010 underwriting years. Net unfavorable development in the international casualty class arose primarily from the 2006, 2008 and 2010 underwriting years. The 2006 underwriting year was impacted by an increase in medical malpractice claims. The 2008 underwriting year was impacted by an increase in claims related to the credit crisis arising from the financial institutions business and liability arising from Australian wildfires. The 2010 underwriting year was impacted by a claim to a power plant in Thailand.

The following table sets forth the net favorable (unfavorable) development for the nine months ended September 30, 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 | \$26,296 | \$ (854) | \$59 | \$ 25,501 |
| North American umbrella | 9,383 | (181) | - | 9,202 |
| North American occurrence excess-of-loss | 7,606 | 165 | 196 | 7,967 |
| Financial lines | 6,397 | (60) | (401) | 5,936 |
| Accident and health | (3,094) | 1,370 | - | (1,724) |
| Other | (1,294) | 67 | 749 | (478) |
| Total | \$45,294 | \$ 507 | \$603 | \$ 46,404 |

Net favorable development in the North American claims made class arose primarily from the 2003 through 2007 underwriting years. Net favorable development in the North American umbrella class arose primarily from the 2003, 2005, 2006 and 2008 underwriting years. The net favorable development in 2008 underwriting year resulted from improved loss experience in the current year after adverse experience led us to increase the selected loss ratio from the initial expected loss ratio in prior years. Net favorable development in the North American occurrence excess-of-loss class arose primarily from the 2002 through 2005 underwriting years. Net favorable development in the financial lines class arose primarily from North American surety business across most prior underwriting years, with a change in the loss development patterns resulting in approximately \$1.6 million of net favorable development. Net unfavorable development in the accident and health class arose primarily from the 2004 through 2006 underwriting years. Net unfavorable development in other classes was partially offset by a change in the pattern of expected reported losses resulting in approximately \$1.3 million of net favorable development.

Net Acquisition Expenses

Net acquisition expenses and related net acquisition expense ratios were \$52.6 million and 23.7%, respectively, for the nine months ended September 30, 2012 and \$53.5 million and 22.7%, respectively, for the nine months ended September 30, 2011. Net acquisition expenses and related net acquisition expense ratios were impacted by changes in the mix of business.

Other Underwriting Expenses

Other underwriting expenses were \$16.3 million and \$14.5 million for the nine months ended September 30, 2012 and 2011, respectively. The increase was primarily the result of an increase in compensation accruals due to the Company's stronger return on equity in 2012 versus 2011.

Finite Risk

The following table summarizes underwriting results and ratios for the Finite Risk segment for the nine months ended September 30, 2012 and 2011 (\$ in thousands):

| | Nine Months Ended September 30, | | Increase (decrease) |
|--|------------------------------------|---------|------------------------|
| | 2012 | 2011 | |
| Net premiums written | \$16,939 | \$7,508 | \$9,431 |
| Net premiums earned | 13,971 | 11,185 | 2,786 |
| Net losses and LAE | 4,805 | 2,346 | |
| Net acquisition expenses | 9,419 | 7,083 | |
| Net losses, LAE and acquisition expenses | 14,224 | 9,429 | 4,795 |
| Other underwriting expenses | 747 | 717 | 30 |
| Finite Risk segment underwriting income (loss) | \$(1,000) | \$1,039 | \$(2,039) |
| Underwriting ratios: | | | |
| Net loss and LAE | 34.4 | % 21.0 | % |
| Net acquisition expense | 67.4 | % 63.3 | % |
| Net loss, LAE and acquisition expense | 101.8 | % 84.3 | % 17.5 points |
| Other underwriting expense | 5.3 | % 6.4 | % (1.1) points |
| Combined | 107.1 | % 90.7 | % 16.4 points |

During the nine months ended September 30, 2012 and 2011, the in-force Finite Risk portfolio consisted of one contract and we expect minor activity in this segment in the foreseeable future due to the relatively low level of demand for finite risk products. 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. Due to the decline in premium volume in recent years, current year ratios may be significantly impacted by relatively small adjustments of prior years' reserves.

Net Premiums Written and Earned

The Finite Risk segment generated 3.9% and 1.5% of our net premiums written for the nine months ended September 30, 2012 and 2011, respectively. Net premiums written increased by \$9.4 million for the nine months ended September 30, 2012 as compared with the nine months ended September 30, 2011. The net premiums written in the nine months ended September 30, 2012 were impacted by increases to prior years' premium estimates of \$5.0 million compared to decreases to prior years' premium estimates of \$0.4 million for the nine months ended September 30, 2011. Excluding the impact of increases to prior years' premium estimates, net premiums written increased by \$4.0 million due to an increase in the reported premium and an increase in our estimates of premium written relating to the one in-force contract. The net premiums earned in the nine months ended September 30, 2012 were also impacted by increases to prior years' premium of \$1.7 million compared to decreases of \$0.5 million for the nine months ended September 30, 2011. Excluding the impact of increases to prior years' premium, net premiums earned increased by \$0.6 million.

Net Losses and LAE and Acquisition Expenses

Net losses, LAE and acquisition expenses increased by \$4.8 million for the nine months ended September 30, 2012 as compared with the nine months ended September 30, 2011, due to an increase in premiums earned and a decrease in net favorable development. There was net favorable development of \$0.1 million and \$1.0 million for the nine months ended September 30, 2012 and 2011, respectively. The net favorable development decreased the net loss, LAE and acquisition expense ratio by 1.0 points and 8.7 points for the nine months ended September 30, 2012 and 2011, respectively. In addition, a change in underwriting conditions resulted in an increase in the loss and loss adjustment expense ratio for the current period.

Non-Underwriting Results

Net Investment Income

Net investment income was \$77.9 million and \$96.1 million for the nine months ended September 30, 2012 and 2011, respectively. Net investment income decreased during the nine months ended September 30, 2012, as compared with the same period in 2011 resulted primarily from a decrease in the average book yield for the portfolio from 3.1% in 2011 to 2.7% in 2012. We also had a reduction of approximately \$250.0 million in the average book value of our investments and cash and cash equivalents for the nine months ended September 30, 2012 as compared with the same period in 2011.

Net Realized Gains on Investments

Net realized gains on investments were \$70.3 million and \$3.2 million for the nine months ended September 30, 2012 and 2011. Sales of investments resulted in net realized gains of \$70.9 million for the nine months ended September 30, 2012 and included \$58.0 million from the sale of municipal bonds, \$8.3 million from the sale of corporate bonds and \$3.3 million from the sale of CMBS. The net negative impact from mark-to-market adjustments on trading securities of \$0.6 million for the nine months ended September 30, 2012 were related to non-U.S government

securities. Sales of investments resulted in net realized gains of \$1.4 million for the nine months ended September 30, 2011, primarily from TIPS and corporate bonds partially offset by realized losses from U.S. Government securities. The net positive impact from mark-to-market adjustments on trading securities of \$1.8 million for the nine months ended September 30, 2011 were related primarily to the sale of our insurance-linked securities.

Net Impairment Losses on Investments

Net impairment losses on investments were \$2.9 million and \$7.6 million for the nine months ended September 30, 2012 and 2011, respectively. The net impairment losses reflect other-than-temporary impairments attributable to credit losses on impaired securities that relate exclusively to investments in securitized mortgages not guaranteed by U.S. government agencies. The net impairment losses recorded for the nine months ended September 30, 2012 related substantially all to non-agency RMBS. The net impairment losses recorded for the nine months ended September 30, 2011 included \$6.3 million related to non-agency RMBS and \$1.3 million related to sub-prime ABS.

Net Changes in Fair Value of Derivatives

There were no net changes in the fair value of derivatives for the nine months ended September 30, 2012 as we did not hold any derivatives during this period. Net changes in the fair value of derivatives resulted in expense of \$5.3 million for the nine months ended September 30, 2011. The net changes in the fair value of derivatives for the nine months ended September 30, 2011 were primarily attributable to expenses of \$2.9 million related to put options on treasury futures that were purchased to temporarily protect our investment portfolio against a sudden increase in interest rates and expenses of \$2.5 million related to a decrease in the fair value of a derivative agreement with Topiary Capital Limited that was used to manage our exposure to certain underwriting risks until it expired on July 31, 2011.

Operating Expenses

Non-underwriting operating expenses were \$17.6 million and \$12.6 million for the nine months ended September 30, 2012 and 2011, respectively, and related to costs such as compensation and other corporate expenses associated with operating as a publicly-traded company. The increase was primarily the result of an increase in compensation accruals due to the Company's stronger return on equity in 2012 versus 2011.

Interest Expense

Interest expense was \$14.3 million for both the nine months ended September 30, 2012 and 2011 and related to our \$250.0 million of debt obligations.

Income Taxes

Income tax expense was \$10.6 million and income tax benefit was \$1.3 million for the nine months ended September 30, 2012 and 2011, respectively. Our effective tax rate was 4.9% and (0.6%) for the nine months ended September 30, 2012 and 2011, respectively. Income tax expense or benefit is primarily driven by the taxable income or loss generated by our U.S.-based subsidiaries. The income tax expense or benefit rate is driven by the portion of taxable income or loss generated by our U.S.-based subsidiaries relative to the income or loss generated by our Bermuda-based operations, which are not subject to corporate income tax. Premiums earned by our U.S. and Bermuda-based subsidiaries generally do not bear a proportionate relationship to their respective pre-tax income for a variety of reasons, including the significant impact on pre-tax income of the different mixes of business underwritten by the particular subsidiary, the presence or absence of underwriting income or loss attributable to such business, and the investment results experienced by the particular subsidiary.

Pre-tax income was \$175.4 million and \$41.1 million in our Bermuda and U.S. companies, respectively, for the nine months ended September 30, 2012. Pre-tax loss was \$239.3 million in our Bermuda companies and pre-tax income was \$5.8 million in our U.S. companies for the nine months ended September 30, 2011.

Financial Condition

The following discussion of financial condition, liquidity and capital resources as of September 30, 2012 focuses only on material changes from December 31, 2011. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition," in our 2011 Form 10-K.

Liquidity

Liquidity Requirements

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 and dividends and other distributions from its subsidiaries to meet its obligations. Such obligations, and those of Platinum Finance, may include operating expenses, debt service obligations and income taxes. We believe that Platinum Holdings has sufficient cash resources and its subsidiaries have available dividend capacity to service our current outstanding obligations. Our reinsurance subsidiaries' principal cash requirements are the payment of losses and LAE, commissions, brokerage, operating expenses, income taxes and dividends to Platinum Holdings. We consider the impact of dividends and other distributions from our reinsurance subsidiaries on their respective capital levels, which may impact the financial strength rating assigned to our subsidiaries by A.M. Best Company, Inc. ("A.M. Best") and Standard & Poor's Ratings Services ("S&P").

Collateral Requirements of our Reinsurance Subsidiaries

Platinum Bermuda is not licensed, approved or accredited as a reinsurer in the United States and, therefore, under the terms of most of its contracts with U.S. ceding companies, it is required to provide collateral to its ceding companies for unpaid losses and LAE and unearned premiums in a form acceptable to state insurance commissioners. Platinum Bermuda and Platinum US also provide reinsurance coverage in many other international jurisdictions, several of

which require us to provide collateral. Typically, this type of collateral takes the form of letters of credit issued by a bank, the establishment of a trust, or funds withheld. See “Sources of Liquidity – Credit Facilities” below for additional information on our bank credit facilities and the collateral required by us.

Platinum Bermuda and Platinum US have reinsurance and other contracts that also require them to provide collateral to ceding companies should certain events occur, such as a decline in our financial strength rating 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 September 30, 2012 and December 31, 2011, we held investments with a carrying value of \$57.1 million and \$61.1 million, respectively, and cash and cash equivalents of \$9.6 million and \$9.3 million, respectively, in trust to collateralize obligations under various reinsurance contracts.

Dividend Capacity of our Subsidiaries

The laws and regulations of Bermuda and the United States include certain restrictions on the amount of statutory capital and surplus that is available for the payment of dividends 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 regulatory restrictions, the maximum amount available for payment of dividends by our reinsurance subsidiaries during 2012 without prior regulatory approval is as follows (\$ in thousands):

| | |
|------------------|-----------|
| Platinum Bermuda | \$286,574 |
| Platinum US | 52,992 |
| Total | \$339,566 |

During the nine months ended September 30, 2012, dividends of \$120.0 million were paid by Platinum Bermuda to Platinum Holdings. Therefore, as of September 30, 2012, the remaining amount available for payment of dividends by our reinsurance subsidiaries during 2012 without prior regulatory approval was \$219.6 million.

There are no regulatory restrictions on the amount of dividends that Platinum Finance can pay to Platinum Regency. Irish law prohibits Platinum Regency from declaring a dividend to Platinum Holdings unless it has “profits available for distribution.” The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses.

Other Liquidity Requirements

Platinum Holdings fully and unconditionally guarantees the outstanding \$250.0 million debt obligations of Platinum Finance. Platinum Finance pays interest at a rate of 7.5% per annum on each June 1 and December 1.

Platinum Holdings also may require cash to pay for share repurchases. See “Capital Resources - Share and Debt Repurchases” below for additional discussion of share repurchases.

Sources of Liquidity

Our sources of funds consist primarily of cash and cash equivalents held by us, cash from operations, proceeds from sales, redemption and maturity of investments, borrowings from our credit facilities and the issuance of securities. As at September 30, 2012, we had cash and cash equivalents of \$1.7 billion and Platinum Holdings had cash and cash equivalents of \$44.7 million. We expect that our liquidity needs for the next twelve months will be met by our cash and cash equivalents, cash flows from operations, investment income and proceeds from the sale, redemption or maturity of our investments.

Cash Flows

Net cash flows used in operating activities were \$19.0 million for the nine months ended September 30, 2012 and net cash flows provided by operating activities were \$38.1 million for the nine months ended September 30, 2011. Cash flows used in operating activities resulted primarily from an increase in the payment of losses and LAE and a reduction in premium volume in the nine months ended September 30, 2012 as compared with the same period in 2011. Our reinsurance subsidiaries have liquidity from premiums, which are generally received in advance of the time losses are paid. The period of time from the occurrence of a claim through the settlement of the liability may extend many years into the future. However, due to the nature of our reinsurance operations, cash flows are affected by claim payments that can fluctuate from year to year. The amount and timing of actual claim payments can vary based on many factors, including the severity of individual losses, changes in the legal environment, and general market conditions. As a result of expected loss payments resulting from major catastrophe activity that has occurred since the beginning of 2010, we anticipate that our operating cash flows will be negative for at least the next 12 months.

Net cash flows provided by investing activities were \$1.0 billion and \$182.9 million for the nine months ended September 30, 2012 and 2011, respectively. In 2012 and 2011, net cash flows provided by investing activities were primarily due to sales and maturities of short-term investments and fixed maturity available-for-sale securities, partially offset by the acquisition of fixed maturity available-for-sale securities and short-term investments. In 2012, we increased our cash balance from investing activities as a result of numerous factors, including managing the overall duration of our investment portfolio and the expected loss payments resulting from major catastrophe activity that has occurred since the beginning of 2010.

Net cash flows used in financing activities were \$115.2 million and \$89.5 million for the nine months ended September 30, 2012 and 2011, respectively. Net cash flows used in financing activities in 2012 primarily related to repurchases of common shares of \$109.6 million and the payment of dividends to common shareholders of \$8.1 million. Net cash flows used in financing activities in 2011 primarily related to repurchases of common shares and the purchase of common share options totaling \$81.8 million and the payment of dividends to common shareholders of \$8.9 million.

Investments

Our investable assets totaled \$4.1 billion and \$4.2 billion at September 30, 2012 and December 31, 2011, respectively. Investable assets include investments, cash and cash equivalents, accrued investment income and net balances due to and from brokers and had a duration of 2.8 and 3.6 years as of September 30, 2012 and December 31, 2011, respectively.

As part of our investment strategy, we seek to establish a level of cash and liquid short-term and intermediate-term securities which, combined with expected cash flows from our operating activities, we believe to be adequate to meet our foreseeable payment obligations. The ultimate amount and timing of claim payments could differ materially from our estimates and create significant variations in cash flows from operations between periods, which may require us to make payments from other sources of liquidity, such as sales of investments, borrowings from credit facilities or proceeds from capital market transactions. If we need to sell investments to meet liquidity requirements, the sale of such investments may be at a material loss.

Our investment portfolio consists primarily of diversified, high quality, predominantly investment grade fixed maturity securities. See Note 3 to the "Consolidated Financial Statements" in this Form 10-Q for additional discussion of fair values. The following table sets forth the fair values, net unrealized gains and losses and credit quality of our investments as of September 30, 2012 (\$ in thousands):

| | Fair Value | Net Unrealized Gain (Loss) | Credit Quality |
|---|-------------|----------------------------------|-------------------|
| Fixed maturity available-for-sale securities: | | | |
| U.S. Government | \$4,991 | \$341 | Aaa |
| U.S. Government agencies | 10,290 | 287 | Aaa |
| Municipal bonds: | | | |
| State general obligation bonds | 742,228 | 85,106 | Aa2 |
| Essential service bonds | 305,228 | 31,033 | Aa3 |
| State income tax and sales tax bonds | 116,165 | 16,092 | Aa1 |
| Other municipal bonds | 78,058 | 6,081 | Aa2 |
| Pre-refunded bonds | 40,105 | 2,414 | Aa3 |
| Subtotal | 1,281,784 | 140,726 | Aa2 |
| Non-U.S. governments | 94,761 | 1,808 | Aa1 |
| Corporate bonds: | | | |
| Industrial | 188,114 | 9,950 | Baa1 |
| Utilities | 76,281 | 5,555 | A3 |
| Insurance | 49,573 | 4,233 | Baa1 |
| Finance | 7,453 | 740 | Baa1 |
| Subtotal | 321,421 | 20,478 | Baa1 |
| Commercial mortgage-backed securities | 176,649 | 13,480 | Aa2 |
| Residential mortgage-backed securities: | | | |
| U.S. Government agency residential mortgage-backed securities | 216,728 | 2,563 | Aaa |
| Non-agency residential mortgage-backed securities | 43,893 | (4,930) | Caa2 |
| Alt-A residential mortgage-backed securities | 4,930 | 45 | Caa2 |
| Subtotal | 265,551 | (2,322) | Aa3 |
| Asset-backed securities: | | | |
| Asset-backed securities | 13,684 | 84 | Aaa |
| Sub-prime asset-backed securities | 7,907 | (466) | Ca |
| Subtotal | 21,591 | (382) | Baa1 |
| Total fixed maturity available-for-sale securities | 2,177,038 | 174,416 | Aa3 |
| Fixed maturity trading securities: | | | |
| Non-U.S. governments | 116,056 | n/a | Aaa |
| Total fixed maturity trading securities | 116,056 | n/a | Aaa |
| Short-term investments: | | | |
| Available-for-sale | 49,249 | 289 | Aaa |
| Trading | 116,492 | n/a | Aaa |
| Total short-term investments | 165,741 | 289 | Aaa |
| Total investments | \$2,458,835 | \$174,705 | Aa3 |

As of September 30, 2012, our investments had a dollar weighted average rating of Aa3, primarily measured by Moody's Investor Services ("Moody's"). If a particular security did not have a Moody's rating then a rating from S&P was generally converted to a Moody's equivalent rating.

Our non-U.S. government bond portfolio consists of securities issued by governments, provinces, agencies and supranationals as well as debt issued by financial institutions that is guaranteed by non-U.S. governments. The following table provides additional detail on the fair value and amortized cost of our portfolio of non-U.S. government fixed maturity available-for-sale securities, fixed maturity trading securities and short-term investments converted to U.S. dollars as of September 30, 2012 (\$ in thousands):

| Non-U.S. government portfolio | Fair Value | | | | Amortized Cost |
|-------------------------------|---------------------|-----------------------|-------------|------------|----------------|
| | Basic Monetary Unit | Other Non-U.S. Dollar | U.S. Dollar | Total | |
| Germany | \$ 43,811 | \$ - | \$ - | \$ 43,811 | \$ 40,597 |
| Ireland | - | - | 4,978 | 4,978 | 5,000 |
| Netherlands | - | 1,558 | - | 1,558 | 1,420 |
| Eurozone governments | 43,811 | 1,558 | 4,978 | 50,347 | 47,017 |
| New Zealand | 88,918 | - | - | 88,918 | 88,910 |
| Australia | 38,183 | - | 30,715 | 68,898 | 67,724 |
| United Kingdom | 56,820 | - | - | 56,820 | 51,452 |
| Norway | - | - | 33,485 | 33,485 | 32,996 |
| Sweden | - | 1,314 | 20,282 | 21,596 | 21,189 |
| Japan | - | - | 5,301 | 5,301 | 5,000 |
| Supranational | - | 1,944 | - | 1,944 | 1,733 |
| Other non-U.S. governments | 183,921 | 3,258 | 89,783 | 276,962 | 269,004 |
| Total non-U.S. governments | \$ 227,732 | \$ 4,816 | \$ 94,761 | \$ 327,309 | \$ 316,021 |

We invest in non-U.S. dollar denominated securities for purposes of hedging our non-U.S. dollar denominated reinsurance liabilities. Our investments in debt issued by Eurozone financial institutions are guaranteed by their respective governments and are included in the table above.

In addition to the investments noted above, we hold non-U.S. dollar denominated cash and cash equivalents of \$212.5 million that are also held for the purpose of hedging our net foreign currency reinsurance liabilities.

The net unrealized gain position of our municipal bond and corporate bond portfolios was \$140.7 million and \$20.5 million, respectively, as of September 30, 2012 as compared with an unrealized gain position of \$150.1 million and \$20.3 million, respectively, as of December 31, 2011. The decrease in the net unrealized gain position in our municipal bond portfolio was the result of sales activities partially offset by the positive impact of the narrowing of interest rate spreads and lower U.S. Government treasury yields. We analyze the creditworthiness of our municipal bond and corporate bond portfolios by reviewing various performance metrics of the issuer, including financial condition, credit ratings and other public information.

The net unrealized gain position of our portfolio of CMBS was \$13.5 million as of September 30, 2012 as compared with \$9.3 million as of December 31, 2011. The net unrealized gain position was positively impacted by a narrowing of interest rate spreads and lower U.S. Government treasury yields, partially offset by sales activities. 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 \$2.3 million, with non-agency RMBS representing \$4.9 million, as of September 30, 2012 as compared with \$9.6 million, with non-agency RMBS representing \$11.3 million, as of December 31, 2011. Approximately 82% of the RMBS in our investment portfolio were issued or are 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 18% of our RMBS were issued by non-agency institutions and included securities with underlying Alt-A mortgages. The net unrealized loss position of our non-agency RMBS was positively impacted by a narrowing of interest rate spreads and the recognition of net impairment losses. Securities with underlying sub-prime mortgages as collateral are included in ABS. The net unrealized loss position of our portfolio of sub-prime ABS was \$0.5 million as of September 30, 2012 as compared with \$2.3 million as of December 31, 2011. 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.

Credit Facilities

Syndicated Credit Facility

On June 24, 2011, we entered into an amended and restated three-year \$300.0 million credit facility (the "Syndicated Credit Facility") that consists of a \$100.0 million unsecured senior credit facility available for revolving borrowings and letters of credit and a \$200.0 million secured senior credit facility available for letters of credit. The Syndicated Credit Facility contains customary representations, warranties and covenants. We are in compliance with the covenants under the Syndicated Credit Facility. The Syndicated Credit Facility provides that we may increase the lender commitments by up to \$150.0 million subject to the participation of lenders.

Other Letter of Credit Facilities

On June 30, 2011, our reinsurance subsidiaries entered into a letter of credit ("LOC") facility in the maximum aggregate amount of \$100.0 million that expires on December 31, 2013. Under the terms of the facility, up to \$100.0 million is available for the issuance of letters of credit to support reinsurance obligations of our reinsurance subsidiaries. The facility contains customary representations, warranties and covenants. We are in compliance with the covenants. We also have the ability to request a supplemental LOC facility for up to \$150.0 million subject to agreement with the lender.

On July 31, 2012, Platinum Bermuda entered into a one-year uncommitted LOC facility in the maximum aggregate amount of \$75.0 million. Under the terms of the facility, up to \$75.0 million is available for the issuance of letters of credit to support reinsurance obligations of Platinum Bermuda. The facility contains customary representations, warranties and covenants. We also have the ability to request a supplemental LOC facility for up to \$75.0 million subject to agreement with the lender.

We had no cash borrowings under the Syndicated Credit Facility during the nine months ended September 30, 2012. The following table summarizes the outstanding letters of credit and the cash and cash equivalents and investments held in trust to collateralize the letters of credit issued as of September 30, 2012 (\$ in thousands):

| | Letters of Credit | | Collateral | | |
|---|--------------------|------------------|---------------------------|-------------|------------------|
| | Committed Capacity | Issued | Cash and Cash Equivalents | Investments | Total |
| Syndicated Credit Facility: | | | | | |
| Secured | \$200,000 | \$99,715 | \$113,307 | \$- | \$113,307 |
| Unsecured | 100,000 | - | - | - | - |
| Total Syndicated Credit Facility | 300,000 | 99,715 | 113,307 | - | 113,307 |
| Other LOC Facilities | 100,000 | 37,330 | 45,287 | - | 45,287 |
| Total | \$400,000 | \$137,045 | \$158,594 | \$- | \$158,594 |

Capital Resources

At September 30, 2012, our capital resources of \$2.0 billion consisted of \$1.8 billion of common shareholders' equity and \$250.0 million of debt obligations. At December 31, 2011, our capital resources of \$1.9 billion consisted of \$1.7 billion of common shareholders' equity and \$250.0 million of debt obligations. The increase in capital during the nine months ended September 30, 2012 was primarily attributable to our net income of \$205.7 million, partially offset by repurchases of common shares of \$109.6 million and dividends of \$8.1 million.

Share and Debt Repurchases

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 July 23, 2012, 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 September 30, 2012, in accordance with the share repurchase program, we repurchased 491,791 of our common shares in the open market for an aggregate cost of \$19.7 million at a weighted average cost including commissions of \$40.05 per share. During the nine months ended September 30, 2012, in accordance with the share repurchase program, we repurchased 2,956,262 of our common shares in the open market for an aggregate cost of \$109.6 million at a weighted average cost including commissions of \$37.08 per share. The shares we repurchased were canceled.

Our Board of Directors has also authorized the repurchase of up to \$250.0 million of our outstanding debt obligations issued by Platinum Finance in open market purchases, privately negotiated transactions or otherwise. We have not repurchased any of our debt obligations.

The timing and amount of the repurchase transactions under our repurchase programs depends on a variety of factors, including market conditions, our liquidity requirements, contractual restrictions, corporate and regulatory considerations and other factors.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined for purposes of the U.S. Securities and Exchange Commission ("SEC") rules, which are not accounted for or disclosed in the "Consolidated Financial Statements" contained elsewhere in this Form 10-Q as of September 30, 2012.

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 2011 Form 10-K.

Recently Issued Accounting Standards

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

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:

- the occurrence of severe natural or man-made catastrophic events;
- the effectiveness of our loss limitation methods and pricing models;
- the adequacy of our ceding companies' ability to assess the risks they underwrite;
- the adequacy of our liability for unpaid losses and loss adjustment expenses;
- the effects of emerging claim and coverage issues on our business;
 - our ability to maintain our A.M. Best and S&P ratings;
 - our ability to raise capital on acceptable terms if necessary;
- our exposure to credit loss from counterparties in the normal course of business;
- our ability to provide reinsurance from Bermuda to insurers domiciled in the United States;

- the effect on our business of the cyclical nature of the property and casualty reinsurance business;
- the effect on our business of the highly competitive nature of the property and casualty reinsurance industry;
 - losses that we could face from terrorism, political unrest and war;
- our dependence on the business provided to us by reinsurance brokers and our exposure to credit risk associated with our brokers during the premium and loss settlement process;
 - the availability of catastrophic loss protection on acceptable terms;
 - foreign currency exchange rate fluctuation;
- our ability to maintain and enhance effective operating procedures and internal controls over financial reporting;

- our need to make many estimates and judgments in the preparation of our financial statements;
- the limitations placed on our financial and operational flexibility by the representations, warranties and covenants in our debt and credit facilities;
 - our ability to retain key executives and attract and retain additional qualified personnel in the future;
 - the performance of our investment portfolio;
 - fluctuations in the mortgage-backed and asset-backed securities markets;
 - the effects of changes in market interest rates on our investment portfolio;
 - the concentration of our investment portfolio in any particular industry, asset class or geographic region;
- the effects that the imposition of U.S. corporate income tax would have on Platinum Holdings and its non-U.S. subsidiaries;
 - the risk that U.S. persons who hold our shares will be subject to adverse U.S. federal income tax consequences under certain circumstances;
- the risk that U.S. persons who dispose of our shares may be subject to U.S. federal income taxation at the rates applicable to dividends on all or a portion of their gains, if any;
- the risk that holders of 10% or more of our shares may be subject to U.S. income taxation under the “controlled foreign corporation” rules;
 - the effect of changes in U.S. federal income tax law on an investment in our shares;
 - the possibility that we may become subject to taxes in Bermuda;
 - the effect on our business of potential changes in the regulatory system under which we operate;
- the impact of regulatory regimes and changes to accounting rules on our financial results, irrespective of business operations;
- the uncertain impact on our business of the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010;
- the dependence of the cash flows of Platinum Holdings, a holding company, on dividends, interest and other permissible payments from its subsidiaries to meet its obligations;
- the risk that our shareholders may have greater difficulty in protecting their interests than would shareholders of a U.S. corporation; and
 - limitations on the ownership, transfer and voting rights of our common shares.

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 2011 Form 10-K.

ITEM QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

3.

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, 2011. See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in our 2011 Form 10-K for a complete discussion of these risks.

Interest Rate Risk

The following table shows the aggregate hypothetical impact on the market value of our fixed maturity securities portfolio as of September 30, 2012, 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 | \$2,410,750 | \$2,350,994 | \$2,293,094 | \$2,238,070 | \$2,185,994 |
| Percent change in market value | 5.1% | 2.5% | 0.0% | (2.4%) | (4.7%) |
| Resulting net appreciation (depreciation) | \$117,656 | \$57,900 | \$- | \$(55,024) | \$(107,100) |

Actual shifts in interest rates may not change by the same magnitude across the maturity spectrum and, as a result, the impact on the fair value of our fixed maturity securities portfolio may be materially different from the resulting net appreciation or depreciation indicated in the table above.

ITEMCONTROLS AND PROCEDURES

4.

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 September 30, 2012 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

ITEMUNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

2.

The following table summarizes our purchases of our common shares during the three months ended September 30, 2012:

| Period | Total Number of Shares Purchased (3) | Average Price Paid per Share (1) (3) | Total Number of Shares Purchased as Part of a Publicly Announced Program (2) | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program |
|--|--------------------------------------|--------------------------------------|--|--|
| July 1, 2012 – July 31, 2012 | 5,313 | \$ 38.85 | 800 | \$ 249,969,584 |
| August 1, 2012 – August 31, 2012 | 370,743 | 39.58 | 370,743 | 235,296,634 |
| September 1, 2012 – September 30, 2012 | 120,248 | 41.53 | 120,248 | 230,302,486 |
| Total | 496,304 | \$ 40.04 | 491,791 | \$ 230,302,486 |

(1) Including commissions.

(2) 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 July 23, 2012, to result in authority as of such date to repurchase up to a total of \$250.0 million of our common shares.

- (3) The July 1, 2012 to July 31, 2012 amounts include 4,513 shares withheld for taxes upon the vesting of an executive officer's restricted shares at a price of \$39.00 per share. The shares were subsequently canceled.

ITEMEXHIBITS

6.

| Exhibit Number | Description |
|----------------|--|
| 31.1 | Certification of Michael D. Price, Chief Executive Officer of Platinum Holdings, pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of Allan C. Decleir, Chief Financial Officer of Platinum Holdings, pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended. |
| 32.1 | Certification of Michael D. Price, Chief Executive Officer of Platinum Holdings, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Allan C. Decleir, Chief Financial Officer of Platinum Holdings, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of September 30, 2012 (unaudited) and December 31, 2011, (ii) the Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011 (unaudited), (iii) the Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2012 and 2011 (unaudited), (iv) the Consolidated Statements of Shareholders' Equity for the nine months ended September 30, 2012 and 2011 (unaudited), (v) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011 (unaudited), and (vi) the Notes to the Consolidated Financial Statements for the three and nine months ended September 30, 2012 and 2011 (unaudited). |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Platinum Underwriters Holdings, Ltd.

Date: October 25, 2012

By: /s/ Michael D. Price
Michael D. Price
President and Chief Executive Officer (Principal
Executive Officer)

Date: October 25, 2012

By: /s/ Allan C. Decleir
Allan C. Decleir
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting
Officer)