

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

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014

OR

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

Commission File Number: 001-31341

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

Bermuda
(State or other jurisdiction of
incorporation or organization)

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

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

HM 08
(Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant had 26,933,459 common shares, par value \$0.01 per share, outstanding as of April 17, 2014.

PLATINUM UNDERWRITERS HOLDINGS, LTD.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	(Unaudited)	
	March 31,	December
	2014	31,
		2013
ASSETS		
Investments:		
Fixed maturity available-for-sale securities at fair value (amortized cost - \$1,795,758 and \$1,799,888, respectively)	\$1,883,192	\$1,857,870
Fixed maturity trading securities at fair value (amortized cost - \$98,208 and \$97,959, respectively)	103,128	103,395
Short-term investments	53,469	66,679
Total investments	2,039,789	2,027,944
Cash and cash equivalents	1,412,970	1,464,418
Accrued investment income	22,112	20,026
Reinsurance premiums receivable	142,643	138,454
Reinsurance recoverable on unpaid and paid losses and loss adjustment expenses	1,311	1,057
Prepaid reinsurance premiums	1,376	1,032
Funds held by ceding companies	117,428	119,241
Deferred acquisition costs	33,213	31,103
Reinsurance deposit assets	81,004	79,303
Deferred tax assets	20,649	25,141
Other assets	12,856	16,166
Total assets	\$3,885,351	\$3,923,885
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	\$1,604,762	\$1,671,365
Unearned premiums	136,272	126,300
Debt obligations	250,000	250,000
Commissions payable	79,748	78,791
Other liabilities	54,626	50,722
Total liabilities	\$2,125,408	\$2,177,178
Shareholders' Equity		
Common shares, \$0.01 par value, 200,000,000 shares authorized, 26,933,459 and 28,142,977 shares issued and outstanding, respectively	\$269	\$281
Additional paid-in capital	-	10,711
Accumulated other comprehensive income	74,559	48,084
Retained earnings	1,685,115	1,687,631
Total shareholders' equity	\$1,759,943	\$1,746,707

Total liabilities and shareholders' equity	\$3,885,351	\$3,923,885
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See accompanying notes to consolidated financial statements.

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
For the Three Months Ended March 31, 2014 and 2013
(\$ in thousands, except per share data)

	2014	2013
Revenue:		
Net premiums earned	\$126,273	\$126,853
Net investment income	17,692	18,544
Net realized gains (losses) on investments	(515)	13,318
Total other-than-temporary impairments	34	(414)
Portion of impairment losses recognized in other comprehensive income	(122)	(7)
Net impairment losses on investments	(88)	(421)
Other income	1,517	1,392
Total revenue	144,879	159,686
Expenses:		
Net losses and loss adjustment expenses	26,509	13,998
Net acquisition expenses	27,501	30,219
Operating expenses	18,283	19,305
Net foreign currency exchange losses (gains)	(187)	(220)
Interest expense	4,786	4,779
Total expenses	76,892	68,081
Income before income taxes	67,987	91,605
Income tax expense	4,252	5,089
Net income	\$63,735	\$86,516
Earnings per common share:		
Basic earnings per common share	\$2.30	\$2.67
Diluted earnings per common share	\$2.27	\$2.63
Shareholder dividends:		
Common shareholder dividends declared	\$2,209	\$2,584
Dividends declared per common share	\$0.08	\$0.08

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
 For the Three Months Ended March 31, 2014 and 2013
 (\$ in thousands)

	2014	2013
Net income	\$63,735	\$86,516
Other comprehensive income (loss) on available-for-sale securities before reclassifications:		
Change in net unrealized gains and losses on securities with other-than-temporary impairments recorded	34	(414)
Change in net unrealized gains and losses on all other securities	29,330	5,810
Total change in net unrealized gains and losses	29,364	5,396
Reclassifications to net income on available-for-sale securities:		
Net realized gains on investments	-	(14,275)
Net impairment losses on investments	88	421
Total reclassifications to net income	88	(13,854)
Other comprehensive income (loss) before income taxes	29,452	(8,458)
Income tax expense (benefit)	(2,977)	1,871
Other comprehensive income (loss)	26,475	(6,587)
Comprehensive income	\$90,210	\$79,929

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
For the Three Months Ended March 31, 2014 and 2013
(\$ in thousands)

	2014	2013
Common shares:		
Balances at beginning of period	\$281	\$327
Issuance of common shares	1	4
Repurchase of common shares	(13)	(13)
Balances at end of period	269	318
Additional paid-in capital:		
Balances at beginning of period	10,711	209,897
Issuance of common shares	(1,222)	6,863
Amortization of share-based compensation	2,210	2,234
Repurchase of common shares	(11,699)	(68,301)
Balances at end of period	-	150,693
Accumulated other comprehensive income:		
Balances at beginning of period	48,084	137,690
Other comprehensive income (loss)	26,475	(6,587)
Balances at end of period	74,559	131,103
Retained earnings:		
Balances at beginning of period	1,687,631	1,546,620
Net income	63,735	86,516
Repurchase of common shares	(64,042)	-
Common share dividends	(2,209)	(2,584)
Balances at end of period	1,685,115	1,630,552
Total shareholders' equity	\$1,759,943	\$1,912,666

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
For the Three Months Ended March 31, 2014 and 2013
(\$ in thousands)

	2014	2013
Operating Activities:		
Net income	\$63,735	\$86,516
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized losses (gains) on investments	515	(13,318)
Net impairment losses on investments	88	421
Net foreign currency exchange losses (gains)	(187)	(220)
Amortization of share-based compensation	3,052	3,313
Other amortization and depreciation	2,603	2,652
Deferred income tax expense	1,514	3,082
Changes in:		
Accrued investment income	(2,094)	(2,016)
Reinsurance premiums receivable	(4,171)	3,063
Funds held by ceding companies	1,696	(2,165)
Deferred acquisition costs	(2,094)	(756)
Reinsurance deposit assets	(1,702)	(1,395)
Net unpaid and paid losses and loss adjustment expenses	(71,413)	(89,507)
Net unearned premiums	9,504	7,912
Commissions payable	928	3,015
Other operating assets and liabilities	4,292	(13,155)
Net cash provided by (used in) operating activities	6,266	(12,558)
Investing Activities:		
Proceeds from sales of:		
Fixed maturity available-for-sale securities	-	107,492
Short-term investments	6,613	5,052
Proceeds from the maturities or paydowns of:		
Fixed maturity available-for-sale securities	38,025	49,728
Short-term investments	61,974	78,368
Acquisitions of:		
Fixed maturity available-for-sale securities	(36,000)	(79,870)
Short-term investments	(52,392)	(14,036)
Net cash provided by (used in) investing activities	18,220	146,734
Financing Activities:		
Dividends paid to common shareholders	(2,209)	(2,584)
Repurchase of common shares	(75,754)	(68,314)
Proceeds from share-based compensation, including income tax benefits	246	7,384
Net cash provided by (used in) financing activities	(77,717)	(63,514)
Effect of foreign currency exchange rate changes on cash and cash equivalents	1,783	(4,811)
Net increase (decrease) in cash and cash equivalents	(51,448)	65,851
Cash and cash equivalents at beginning of period	1,464,418	1,720,395

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Cash and cash equivalents at end of period	\$1,412,970	\$1,786,246
Supplemental disclosures of cash flow information:		
Income taxes paid, net of refunds	\$189	\$3,053
Interest paid	\$-	\$-

See accompanying notes to consolidated financial statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation and Consolidation

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

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

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

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

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

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

2. Investments

Fixed Maturity Available-for-sale Securities

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

	Amortized Cost	Included in Accumulated Other Comprehensive Income		Fair Value	Non-credit portion of OTTI(1)
		Gross Unrealized Gains	Gross Unrealized Losses		
March 31, 2014:					
U.S. Government	\$4,544	\$180	\$-	\$4,724	\$-
U.S. Government agencies	81,407	697	195	81,909	-
Municipal bonds	1,204,247	73,806	2,468	1,275,585	-
Non-U.S. governments	39,975	526	-	40,501	-
Corporate bonds	220,731	9,217	1,534	228,414	-
Commercial mortgage-backed securities	66,561	4,736	143	71,154	-
Residential mortgage-backed securities	162,107	1,573	939	162,741	294
Asset-backed securities	16,186	2,529	551	18,164	326
Total fixed maturity available-for-sale securities	\$1,795,758	\$93,264	\$5,830	\$1,883,192	\$620
December 31, 2013:					
U.S. Government	\$4,561	\$204	\$-	\$4,765	\$-
U.S. Government agencies	51,847	-	725	51,122	-
Municipal bonds	1,220,869	54,333	5,955	1,269,247	-
Non-U.S. governments	39,973	541	-	40,514	-
Corporate bonds	224,095	6,704	3,564	227,235	-
Commercial mortgage-backed securities	72,641	4,982	132	77,491	-
Residential mortgage-backed securities	169,699	1,335	1,069	169,965	331
Asset-backed securities	16,203	1,657	329	17,531	305
Total fixed maturity available-for-sale securities	\$1,799,888	\$69,756	\$11,774	\$1,857,870	\$636

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

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Fixed Maturity Trading Securities

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

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

	March 31, 2014	December 31, 2013
Non-U.S. governments	\$103,128	\$103,395
Total fixed maturity trading securities	\$103,128	\$103,395

Maturities

The following table sets forth the amortized cost and fair value of our fixed maturity available-for-sale and trading securities by stated maturity as of March 31, 2014 (\$ in thousands):

	Amortized Cost	Fair Value
Due in one year or less	\$57,769	\$58,736
Due from one to five years	475,798	496,460
Due from five to ten years	705,795	736,126
Due in ten or more years	409,750	442,939
Mortgage-backed and asset-backed securities	244,854	252,059
Total	\$1,893,966	\$1,986,320

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

Short-term Investments

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

	March 31, 2014	December 31, 2013
Non-U.S. governments	\$53,469	\$66,679
Total short-term investments	\$53,469	\$66,679

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

For the Three Months Ended March 31, 2014 and 2013

Other-Than-Temporary Impairments

We analyze the creditworthiness of our available-for-sale securities by reviewing various performance metrics of the issuer. We determined that none of our government bonds, government agencies, municipal bonds, corporate bonds or commercial mortgage-backed securities (“CMBS”) were other-than-temporarily impaired for the three months ended March 31, 2014 and 2013.

The following table sets forth the net impairment losses on investments for the three months ended March 31, 2014 and 2013 (\$ in thousands):

	2014	2013
Non-agency residential mortgage-backed securities	\$88	\$336
Sub-prime asset-backed securities	-	85
Net impairment losses on investments	\$88	\$421

Residential mortgage-backed securities (“RMBS”) include U.S. Government agency RMBS and non-agency RMBS. Securities with underlying sub-prime mortgages as collateral are included in asset-backed securities (“ABS”). We determined that none of our U.S. Government agency RMBS were other-than-temporarily impaired for the three months ended March 31, 2014 and 2013. We analyze our non-agency RMBS and sub-prime ABS on a periodic basis using default loss models based on the performance of the underlying loans. Performance metrics include delinquencies, defaults, foreclosures, prepayment speeds and cumulative losses incurred. The expected losses for a mortgage pool are compared with the current level of credit support, which generally represents the point at which our security would experience losses. We evaluate projected cash flows as well as other factors in order to determine if a credit impairment has occurred. As of March 31, 2014, the single largest unrealized loss within our RMBS portfolio was \$0.4 million related to a non-agency RMBS security with an amortized cost of \$4.1 million. As of March 31, 2014, the single largest unrealized loss within our sub-prime ABS portfolio was \$0.3 million related to a security with an amortized cost of \$0.6 million.

The following table sets forth a summary of the cumulative credit losses recognized on our fixed maturity available-for-sale securities for the three months ended March 31, 2014 and 2013 (\$ in thousands):

	2014	2013
Balance, beginning of period	\$31,603	\$40,219
Credit losses on securities previously impaired	88	421
Reduction for paydowns and securities sold	(1,039)	(3,934)
Reduction for increases in cash flows expected to be collected	(237)	(144)
Balance, end of period	\$30,415	\$36,562

For the period ended March 31, 2014, total cumulative credit losses decreased primarily due to principal paydowns. As of March 31, 2014, total cumulative credit losses were related to CMBS, non-agency RMBS and sub-prime ABS. The cumulative credit losses we recorded on CMBS of \$0.4 million were on one security issued in 2007. As of March 31, 2014, 2.2% of the mortgages backing this security were 90 days or more past due and 2.7% of the mortgages had incurred cumulative losses. The cumulative credit losses we recorded on non-agency RMBS and sub-prime ABS of \$30.0 million were on sixteen securities issued from 2004 to 2007. As of March 31, 2014, 15.9% of the mortgages backing these securities were 90 days or more past due and 8.6% 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 2.9%.

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Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Gross Unrealized Losses

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

	March 31, 2014		December 31, 2013	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Less than twelve months:				
U.S. Government agencies	\$29,629	\$195	\$41,122	\$725
Municipal bonds	109,260	2,408	247,873	5,955
Corporate bonds	34,870	873	90,789	3,486
Commercial mortgage-backed securities	-	-	2,938	1
Residential mortgage-backed securities	65,345	86	35,910	172
Asset-backed securities	13,770	230	13,576	24
Total	\$252,874	\$3,792	\$432,208	\$10,363
Twelve months or more:				
U.S. Government agencies	\$-	\$-	\$-	\$-
Municipal bonds	1,713	60	-	-
Corporate bonds	7,293	661	920	78
Commercial mortgage-backed securities	4,610	143	4,624	131
Residential mortgage-backed securities	9,680	853	10,587	897
Asset-backed securities	264	321	699	305
Total	\$23,560	\$2,038	\$16,830	\$1,411
Total unrealized losses:				
U.S. Government agencies	\$29,629	\$195	\$41,122	\$725
Municipal bonds	110,973	2,468	247,873	5,955
Corporate bonds	42,163	1,534	91,709	3,564
Commercial mortgage-backed securities	4,610	143	7,562	132
Residential mortgage-backed securities	75,025	939	46,497	1,069
Asset-backed securities	14,034	551	14,275	329
Total	\$276,434	\$5,830	\$449,038	\$11,774

We believe that the gross unrealized losses in our fixed maturity available-for-sale securities portfolio of \$5.8 million represent temporary declines in fair value. We believe that the unrealized losses are not necessarily predictive of ultimate performance and that the provisions we have made for net impairment losses are adequate. However, economic conditions may deteriorate more than expected and may adversely affect the expected cash flows of our securities, which in turn may lead to impairment losses being recorded in future periods. Conversely, economic conditions may improve more than expected and favorably increase the expected cash flows of our impaired securities, which would be earned through net investment income over the remaining life of the security.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Net Investment Income

The following table sets forth our net investment income for the three months ended March 31, 2014 and 2013 (\$ in thousands):

	2014	2013
Fixed maturity securities	\$17,002	\$17,743
Short-term investments and cash and cash equivalents	731	1,048
Funds held by ceding companies	904	842
Subtotal	18,637	19,633
Investment expenses	(945)	(1,089)
Net investment income	\$17,692	\$18,544

Net Realized Gains (Losses) on Investments

The following table sets forth our net realized gains (losses) on investments for the three months ended March 31, 2014 and 2013 (\$ in thousands):

	2014	2013
Gross realized gains on the sale of investments	\$-	\$14,276
Gross realized losses on the sale of investments	-	-
Net realized gains on the sale of investments	-	14,276
Fair value adjustments on trading securities	(515)	(958)
Net realized gains (losses) on investments	\$(515)	\$13,318

3. Fair Value Measurements

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

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

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

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

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Level 1, 2 and 3 Financial Assets Carried at Fair Value

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

U.S. Government

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

U.S. Government agencies

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

Municipal bonds

Level 2 - The fair values of municipal bonds were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark securities, bids, credit risks and economic indicators.

Non-U.S. governments

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

Corporate bonds

Level 2 - The fair values of corporate bonds were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark securities, bids, credit risks and industry and economic indicators.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Commercial mortgage-backed securities

Level 2 or 3 - The fair values of CMBS classified as Level 2 were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, security cash flows and structures, delinquencies, loss severities and default rates. CMBS classified as Level 3 used unobservable inputs that may include the probability of default and loss severity in the event of default.

Residential mortgage-backed securities

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

Asset-backed securities

Level 2 or 3 - The fair values of ABS classified as Level 2 were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, security cash flows and structures, type of collateral, prepayment speeds, delinquencies, loss severities and default rates. Sub-prime ABS classified as Level 3 used unobservable inputs that may include the probability of default, loss severity in the event of default and prepayment speeds.

Short-term investments

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

Cash and cash equivalents

Level 1 - The fair values of cash and cash equivalents were determined based on quoted prices in active markets for identical assets. Cash and cash equivalents include demand deposits, time deposits, money market instruments and both U.S. Government and non-U.S. government obligations.

Reinsurance deposit assets

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

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Fair Value Levels

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

	Fair Value Measurement Using:			
	Total	Level 1	Level 2	Level 3
March 31, 2014:				
Investments:				
U.S. Government	\$4,724	\$4,724	\$-	\$-
U.S. Government agencies	81,909	-	81,909	-
Municipal bonds	1,275,585	-	1,275,585	-
Non-U.S. governments	143,629	54,845	88,784	-
Corporate bonds	228,414	-	228,414	-
Commercial mortgage-backed securities	71,154	-	69,339	1,815
Residential mortgage-backed securities	162,741	-	161,616	1,125
Asset-backed securities	18,164	-	17,900	264
Short-term investments	53,469	-	53,469	-
Total investments	2,039,789	59,569	1,977,016	3,204
Cash and cash equivalents	1,412,970	1,412,970	-	-
Reinsurance deposit assets	81,004	-	-	81,004
Total	\$3,533,763	\$1,472,539	\$1,977,016	\$84,208
December 31, 2013:				
Investments:				
U.S. Government	\$4,765	\$4,765	\$-	\$-
U.S. Government agencies	51,122	-	51,122	-
Municipal bonds	1,269,247	-	1,269,247	-
Non-U.S. governments	143,909	54,980	88,929	-
Corporate bonds	227,235	-	227,235	-
Commercial mortgage-backed securities	77,491	-	77,491	-
Residential mortgage-backed securities	169,965	-	169,372	593
Asset-backed securities	17,531	-	15,304	2,227
Short-term investments	66,679	8,933	57,746	-
Total investments	2,027,944	68,678	1,956,446	2,820
Cash and cash equivalents	1,464,418	1,464,418	-	-
Reinsurance deposit assets	79,303	-	-	79,303
Total	\$3,571,665	\$1,533,096	\$1,956,446	\$82,123

Cash and cash equivalents included demand deposits and time deposits totaling \$188.7 million as of March 31, 2014 and totaling \$120.7 million as of December 31, 2013.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

There were no transfers between Levels 1 and 2 during the three months ended March 31, 2014 and 2013. Transfers of assets 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 based on the level of evidence available to corroborate significant observable inputs with market observable information.

Changes in Level 3 Financial Assets

The following table reconciles the beginning and ending balance for our Level 3 financial assets measured at fair value on a recurring basis for the three months ended March 31, 2014 and 2013 (\$ in thousands):

	Three Months Ended March 31, 2014				Total
	Commercial mortgage-backed securities	Residential mortgage-backed securities	Asset-backed securities	Reinsurance deposit assets	
Balance, beginning of period	\$-	\$ 593	\$ 2,227	\$ 79,303	\$82,123
Sales, maturities and paydowns	-	(638)	-	-	(638)
Total increase (decrease) in fair value included in net income	-	-	-	1,701	1,701
Total net unrealized gains (losses) included in other comprehensive income (loss)	-	377	1,047	-	1,424
Transfers into Level 3	1,815	793	-	-	2,608
Transfers out of Level 3	-	-	(3,010)	-	(3,010)
Balance, end of period	\$1,815	\$ 1,125	\$ 264	\$81,004	\$84,208
Total increase (decrease) in fair value of the financial assets included in earnings for the period	\$-	\$ -	\$ -	\$ 1,701	\$ 1,701

	Three Months Ended March 31, 2013				Total
	Commercial mortgage-backed securities	Residential mortgage-backed securities	Asset-backed securities	Reinsurance deposit assets	
Balance, beginning of period	\$524	\$ 5,374	\$ 1,036	\$50,693	\$57,627
Sales, maturities and paydowns	-	(40)	-	-	(40)
Total increase (decrease) in fair value included in net income	-	-	-	1,395	1,395
Total net unrealized gains (losses) included in other comprehensive income (loss)	487	245	(67)	-	665
Transfers into Level 3	-	-	2,294	-	2,294
Transfers out of Level 3	(1,011)	(3,583)	-	-	(4,594)
Balance, end of period	\$-	\$ 1,996	\$ 3,263	\$52,088	\$57,347
Total increase (decrease) in fair value of the financial assets included in earnings	\$-	\$ -	\$ -	\$ 1,395	\$ 1,395

for the period

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Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Quantitative Information of Level 3 Fair Value Measurements

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

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

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

	March 31, 2014	December 31, 2013
Estimated contract period remaining	1,103 days	1,193 days
Credit spread above the risk-free rate	1.36%	1.58%
Net losses and LAE ceded inception-to-date	\$-	\$-

Other Financial Assets and Liabilities Not Carried at Fair Value

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

The debt obligations on our consolidated balance sheets were recorded at cost with a carrying value of \$250.0 million as of March 31, 2014 and December 31, 2013, and had a fair value of \$282.7 million and \$271.5 million as of March 31, 2014 and December 31, 2013, respectively. The fair value measurements were based on observable inputs and therefore would be considered to be Level 2.

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

4. Credit Facilities

Syndicated Credit Facility

As of March 31, 2014, we had a \$300.0 million credit facility with various financial institutions (the "Syndicated Credit Facility") available for revolving borrowings and letters of credit ("LOC") for the working capital, liquidity and general

corporate requirements of Platinum Holdings, Platinum Finance and our reinsurance subsidiaries. Platinum Holdings and Platinum Finance have unconditionally guaranteed the obligations of our reinsurance subsidiaries under the Syndicated Credit Facility.

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Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Other Letter of Credit Facilities

As of March 31, 2014, we had a LOC facility with a financial institution in the aggregate amount of \$100.0 million available for the issuance of LOC to support reinsurance obligations of our reinsurance subsidiaries.

As of March 31, 2014, Platinum Bermuda had an uncommitted LOC facility of \$125.0 million available for the issuance of LOC to support reinsurance obligations of Platinum Bermuda. There was \$8.1 million committed under this facility as of March 31, 2014. Platinum Holdings has unconditionally guaranteed the obligations of Platinum Bermuda under this facility.

We had no revolving borrowings under the Syndicated Credit Facility during the three months ended March 31, 2014 and the year ended December 31, 2013. The following table summarizes the outstanding LOC and the cash and cash equivalents held to collateralize LOC issued as of March 31, 2014 (\$ in thousands):

	Letters of Credit		Collateral Cash and Cash Equivalents
	Committed Capacity	Issued	
Syndicated Credit Facility:			
Secured	\$200,000	\$78,373	\$91,367
Unsecured	100,000	-	-
Total Syndicated Credit Facility	300,000	78,373	91,367
Other LOC Facilities	108,120	34,069	67,340
Total	\$408,120	\$112,442	\$158,707

As of March 31, 2014, we were in compliance with all of the covenants under our credit facilities.

Our reinsurance subsidiaries had a total remaining uncommitted LOC capacity of \$266.9 million available as of March 31, 2014. The Company also has the ability to increase the Syndicated Credit Facility and other LOC facilities by up to \$175.0 million subject to agreement with the lenders.

On April 9, 2014, we entered into an amended and restated Syndicated Credit Facility with various financial institutions. The amended and restated Syndicated Credit Facility is a four-year, \$300.0 million secured senior credit facility available for LOC, with a sublimit of \$100.0 million for revolving borrowings. LOC and borrowings under the amended and restated Syndicated Credit Facility are available for the working capital, liquidity and general corporate requirements of Platinum Holdings, Platinum Finance and our reinsurance subsidiaries. The amended and restated Syndicated Credit Facility contains representations, warranties and covenants that are similar to the Syndicated Credit Facility in place at March 31, 2014. Platinum Holdings and Platinum Finance have unconditionally guaranteed the obligations of each party under the amended and restated Syndicated Credit Facility.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

5. Income Taxes

We provide for income tax expense or benefit based upon pre-tax 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 federal income tax returns of our U.S.-based subsidiaries that remain open to examination are for calendar years 2010 and later. The tax returns that remain open for our Ireland-based subsidiary, Platinum Regency, are for calendar years 2009 and later.

6. Shareholders' Equity

Accumulated Other Comprehensive Income

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

The following table reconciles the beginning and ending balances for accumulated other comprehensive income for the three months ended March 31, 2014 and 2013 (\$ in thousands):

	Three Months Ended March 31, 2014		
	Pre-tax	Tax	Net of tax
Balance, beginning of period	\$57,982	\$(9,898)	\$48,084
Other comprehensive income (loss) on available-for-sale securities before reclassifications:			
Change in net unrealized gains and losses on securities with other-than-temporary impairments recorded	34	-	34
Change in net unrealized gains and losses on all other securities	29,330	(2,977)	26,353
Total change in net unrealized gains and losses	29,364	(2,977)	26,387
Reclassifications to net income on available-for-sale securities:			
Net realized gains on investments	-	-	-
Net impairment losses on investments	88	-	88
Total reclassifications to net income	88	-	88
Other comprehensive income (loss)	29,452	(2,977)	26,475
Balance, end of period	\$87,434	\$(12,875)	\$74,559

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

For the Three Months Ended March 31, 2014 and 2013

	Three Months Ended March 31, 2013		
	Pre-tax	Tax	Net of tax
Balance, beginning of period	\$ 159,975	\$(22,285)	\$ 137,690
Other comprehensive income (loss) on available-for-sale securities before reclassifications:			
Change in net unrealized gains and losses on securities with other-than-temporary impairments recorded	(414)	11	(403)
Change in net unrealized gains and losses on all other securities	5,810	198	6,008
Total change in net unrealized gains and losses	5,396	209	5,605
Reclassifications to net income on available-for-sale securities:			
Net realized gains on investments	(14,275)	1,695	(12,580)
Net impairment losses on investments	421	(33)	388
Total reclassifications to net income	(13,854)	1,662	(12,192)
Other comprehensive income (loss)	(8,458)	1,871	(6,587)
Balance, end of period	\$ 151,517	\$(20,414)	\$ 131,103

The following table sets forth the amounts reclassified out of accumulated other comprehensive income and the location of those amounts in the consolidated statements of operations for the three months ended March 31, 2014 and 2013 (\$ in thousands):

	Three Months Ended March 31,	
	2014	2013
Revenue:		
Net realized gains on investments	\$-	\$(14,275)
Net impairment losses on investments	88	421
Income tax expense	\$-	\$ 1,662

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 April 22, 2014, to result in authority as of such date to repurchase up to a total of \$250.0 million of our common shares.

During the three months ended March 31, 2014, in accordance with the share repurchase program, we repurchased 1,298,004 of our common shares in the open market for an aggregate cost of \$75.8 million at a weighted average cost including commissions of \$58.36 per share. The shares we repurchased were canceled.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

7. Dividend Restrictions

Platinum Holdings and its subsidiaries are subject to certain legal and regulatory restrictions in their respective jurisdictions of domicile. The legal restrictions generally include the requirement to maintain positive net assets and to be able to pay liabilities as they become due. Regulatory restrictions on dividends are described below.

Dividend Restrictions on Platinum Holdings

Platinum Holdings receives dividends and other distributions from its subsidiaries as a source of liquidity and to fund the payment of dividends to its shareholders. Distributions to Platinum Holdings from its subsidiaries may be restricted as described below. There are no significant restrictions on retained earnings available for the payment of dividends by Platinum Holdings to its shareholders.

Dividend Restrictions on Subsidiaries

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.

The following table summarizes the dividend restrictions of our reinsurance subsidiaries (\$ in thousands):

	2014	For the Three Months Ended March 31, 2014	March 31, 2014
	Dividend Capacity	Paid	Remaining
Platinum Bermuda	\$264,320	\$50,000	\$214,320
Platinum US	25,572	-	25,572
Total	\$289,892	\$50,000	\$239,892

There are no regulatory restrictions on retained earnings available for the payment of dividends by Platinum Finance to Platinum Regency or by Platinum Regency to Platinum Holdings.

8. Operating Segment Information

We have organized our worldwide reinsurance business into three operating segments: Property and Marine, Casualty and Finite Risk. We believe that underwriting income or loss and ratios allow for a more complete understanding of the profitability of our reinsurance operations and operating segments. These measures are considered to be non-GAAP. These non-GAAP measures may be defined or calculated differently by other companies. These measures are used to monitor our results and should not be viewed as a substitute for those determined in accordance with U.S. GAAP.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Underwriting income or loss consists of net premiums earned less net losses and LAE and net underwriting expenses. Net underwriting expenses include net acquisition expenses and operating costs related to underwriting. Underwriting income or loss excludes revenues and expenses related to net investment income, net realized gains or losses on investments, net impairment losses on investments, corporate expenses not allocated to underwriting segments, interest expense, net foreign currency exchange gains or losses and other income and expense.

Underwriting ratios are calculated for net losses and LAE, net acquisition expense and other underwriting expense. The ratios are calculated by dividing the related expense by net premiums earned. The combined ratio is the sum of the net losses and LAE, net acquisition expense and other underwriting expense ratios.

The following table summarizes underwriting income or loss and ratios for the three operating segments, together with a reconciliation of segment underwriting income (loss) to the U.S. GAAP measure of income before income taxes for the three months ended March 31, 2014 and 2013 (\$ in thousands):

	Three Months Ended March 31, 2014				
	Property and Marine	Casualty	Finite Risk	Total	
Net premiums written	\$57,745	\$71,674	\$6,358	\$135,777	
Net premiums earned	53,192	65,717	7,364	126,273	
Net losses and loss adjustment expenses	5,610	14,960	5,939	26,509	
Net acquisition expenses	10,043	15,642	1,816	27,501	
Other underwriting expenses	7,370	5,228	292	12,890	
Segment underwriting income (loss)	\$30,169	\$29,887	\$(683)	59,373	
Net investment income				17,692	
Net realized gains (losses) on investments				(515)	
Net impairment losses on investments				(88)	
Other income				1,517	
Corporate expenses not allocated to segments				(5,393)	
Net foreign currency exchange (losses) gains				187	
Interest expense				(4,786)	
Income before income taxes				\$67,987	
Underwriting ratios:					
Net loss and loss adjustment expense	10.5	% 22.8	% 80.6	% 21.0	%
Net acquisition expense	18.9	% 23.8	% 24.7	% 21.8	%
Other underwriting expense	13.9	% 8.0	% 4.0	% 10.2	%
Combined	43.3	% 54.6	% 109.3	% 53.0	%

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

	Three Months Ended March 31, 2013			
	Property and Marine	Casualty	Finite Risk	Total
Net premiums written	\$59,427	\$70,844	\$4,494	\$134,765
Net premiums earned	51,852	70,795	4,206	126,853
Net losses and loss adjustment expenses	(14,205)	29,643	(1,440)	13,998
Net acquisition expenses	8,227	16,249	5,743	30,219
Other underwriting expenses	7,332	5,723	333	13,388
Segment underwriting income (loss)	\$50,498	\$19,180	\$(430)	69,248
Net investment income				18,544
Net realized gains (losses) on investments				13,318
Net impairment losses on investments				(421)
Other income				1,392
Corporate expenses not allocated to segments				(5,917)
Net foreign currency exchange (losses) gains				220
Interest expense				(4,779)
Income before income taxes				\$91,605
Underwriting ratios:				
Net loss and loss adjustment expense	(27.4 %)	41.9 %	(34.2 %)	11.0 %
Net acquisition expense	15.9 %	23.0 %	136.5 %	23.8 %
Other underwriting expense	14.1 %	8.1 %	7.9 %	10.6 %
Combined	2.6 %	73.0 %	110.2 %	45.4 %

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

9. Earnings per Common Share

The following is a reconciliation of basic and diluted earnings per common share computations for the three months ended March 31, 2014 and 2013 (\$ and amounts in thousands, except per share data):

	2014	2013
Earnings		
Basic and Diluted		
Net income attributable to common shareholders	\$63,735	\$86,516
Portion allocated to participating common shareholders (1)	-	(189)
Net income allocated to common shareholders	\$63,735	\$86,327
Common Shares		
Basic		
Weighted average common shares outstanding	27,765	32,373
Diluted		
Weighted average common shares outstanding	27,765	32,373
Effect of dilutive securities:		
Common share options	51	219
Restricted share units	293	246
Adjusted weighted average common shares outstanding	28,109	32,838
Earnings Per Common Share		
Basic earnings per common share	\$2.30	\$2.67
Diluted earnings per common share	\$2.27	\$2.63

(1) Represents earnings attributable to holders of unvested restricted shares issued under the Company's share incentive plan that are considered to be participating securities. All outstanding restricted shares vested in July 2013.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

10. 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 March 31, 2014 and December 31, 2013 and for the three months ended March 31, 2014 and 2013 (\$ in thousands):

Condensed Consolidating Balance Sheet
March 31, 2014

	Platinum Holdings	Platinum Finance	Non-guarantor Subsidiaries(1)	Consolidating Adjustments	Consolidated
ASSETS					
Total investments	\$-	\$102	\$ 2,039,687	\$ -	\$ 2,039,789
Investment in subsidiaries	1,703,315	629,808	607,088	(2,940,211)	-
Cash and cash equivalents	54,758	230,532	1,127,680	-	1,412,970
Reinsurance assets	-	-	295,971	-	295,971
Inter-company receivables	9,596	-	500	(10,096)	-
Other assets	1,965	3,030	131,626	-	136,621
Total assets	\$1,769,634	\$863,472	\$ 4,202,552	\$ (2,950,307)	\$ 3,885,351
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES					
Reinsurance liabilities	\$-	\$-	\$ 1,820,782	\$ -	\$ 1,820,782
Debt obligations	-	250,000	-	-	250,000
Inter-company payables	-	39	10,057	(10,096)	-
Other liabilities	9,691	6,345	38,590	-	54,626
Total liabilities	\$9,691	\$256,384	\$ 1,869,429	\$ (10,096)	\$ 2,125,408
SHAREHOLDERS' EQUITY					
Common shares	\$269	\$-	\$ 8,000	\$ (8,000)	\$ 269
Additional paid-in capital	-	215,666	2,024,904	(2,240,570)	-
Accumulated other comprehensive income	74,559	23,911	98,467	(122,378)	74,559
Retained earnings	1,685,115	367,511	201,752	(569,263)	1,685,115
Total shareholders' equity	\$1,759,943	\$607,088	\$ 2,333,123	\$ (2,940,211)	\$ 1,759,943
Total liabilities and shareholders' equity	\$1,769,634	\$863,472	\$ 4,202,552	\$ (2,950,307)	\$ 3,885,351

(1) Amounts represent an aggregation of the non-guarantor subsidiaries and exclude consolidating adjustments.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Condensed Consolidating Balance Sheet

December 31, 2013

	Platinum Holdings	Platinum Finance	Non-guarantor Subsidiaries(1)	Consolidating Adjustments	Consolidated
ASSETS					
Total investments	\$-	\$114	\$ 2,027,830	\$ -	\$ 2,027,944
Investment in subsidiaries	1,658,425	610,679	591,175	(2,860,279)	-
Cash and cash equivalents	88,402	230,818	1,145,198	-	1,464,418
Reinsurance assets	-	-	290,887	-	290,887
Inter-company receivables	9,739	-	351	(10,090)	-
Other assets	2,135	1,290	137,211	-	140,636
Total assets	\$1,758,701	\$842,901	\$ 4,192,652	\$ (2,870,369)	\$ 3,923,885
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Reinsurance liabilities	\$-	\$-	\$ 1,876,456	\$ -	\$ 1,876,456
Debt obligations	-	250,000	-	-	250,000
Inter-company payables	-	39	10,051	(10,090)	-
Other liabilities	11,994	1,687	37,041	-	50,722
Total liabilities	\$11,994	\$251,726	\$ 1,923,548	\$ (10,090)	\$ 2,177,178
Shareholders' Equity					
Common shares	\$281	\$-	\$ 8,000	\$ (8,000)	\$ 281
Additional paid-in capital	10,711	215,420	2,024,409	(2,239,829)	10,711
Accumulated other comprehensive income	48,084	18,382	66,463	(84,845)	48,084
Retained earnings	1,687,631	357,373	170,232	(527,605)	1,687,631
Total shareholders' equity	\$1,746,707	\$591,175	\$ 2,269,104	\$ (2,860,279)	\$ 1,746,707
Total liabilities and shareholders' equity	\$1,758,701	\$842,901	\$ 4,192,652	\$ (2,870,369)	\$ 3,923,885

(1) Amounts represent an aggregation of the non-guarantor subsidiaries and exclude consolidating adjustments.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Condensed Consolidating Statement of Operations

For the Three Months Ended March 31, 2014

	Platinum Holdings	Platinum Finance	Non-guarantor Subsidiaries(1)	Consolidating Adjustments	Consolidated
Revenue:					
Net premiums earned	\$-	\$-	\$ 126,273	\$ -	\$ 126,273
Net investment income (expense)	10	(47)	17,729	-	17,692
Net realized gains (losses) on investments	-	-	(515)	-	(515)
Net impairment losses on investments	-	-	(88)	-	(88)
Other income (expense)	1,523	-	(6)	-	1,517
Total revenue	1,533	(47)	143,393	-	144,879
Expenses:					
Net losses and loss adjustment expenses	-	-	26,509	-	26,509
Net acquisition expenses	-	-	27,501	-	27,501
Operating expenses	5,966	34	12,283	-	18,283
Net foreign currency exchange losses (gains)	-	-	(187)	-	(187)
Interest expense	-	4,786	-	-	4,786
Total expenses	5,966	4,820	66,106	-	76,892
Income (loss) before income taxes	(4,433)	(4,867)	77,287	-	67,987
Income tax expense (benefit)	-	(1,654)	5,906	-	4,252
Income (loss) before equity in earnings of subsidiaries	(4,433)	(3,213)	71,381	-	63,735
Equity in earnings of subsidiaries	68,168	13,352	10,139	(91,659)	-
Net income	\$63,735	\$10,139	\$ 81,520	\$ (91,659)	\$ 63,735

(1) Amounts represent an aggregation of the non-guarantor subsidiaries and exclude consolidating adjustments.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Condensed Consolidating Statement of Operations

For the Three Months Ended March 31, 2013

	Platinum Holdings	Platinum Finance	Non-guarantor Subsidiaries(1)	Consolidating Adjustments	Consolidated
Revenue:					
Net premiums earned	\$-	\$-	\$ 126,853	\$ -	\$ 126,853
Net investment income (expense)	13	(22)	18,553	-	18,544
Net realized gains (losses) on investments	-	-	13,318	-	13,318
Net impairment losses on investments	-	-	(421)	-	(421)
Other income (expense)	4,129	4	(2,741)	-	1,392
Total revenue	4,142	(18)	155,562	-	159,686
Expenses:					
Net losses and loss adjustment expenses	-	-	13,998	-	13,998
Net acquisition expenses	-	-	30,219	-	30,219
Operating expenses	5,626	34	13,645	-	19,305
Net foreign currency exchange losses (gains)	-	-	(220)	-	(220)
Interest expense	-	4,779	-	-	4,779
Total expenses	5,626	4,813	57,642	-	68,081
Income (loss) before income taxes	(1,484)	(4,831)	97,920	-	91,605
Income tax expense (benefit)	-	(1,588)	6,677	-	5,089
Income (loss) before equity in earnings of subsidiaries	(1,484)	(3,243)	91,243	-	86,516
Equity in earnings of subsidiaries	88,000	22,930	19,687	(130,617)	-
Net income	\$86,516	\$19,687	\$ 110,930	\$ (130,617)	\$ 86,516

(1) Amounts represent an aggregation of the non-guarantor subsidiaries and exclude consolidating adjustments.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended March 31, 2014

	Platinum Holdings	Platinum Finance	Non-guarantor Subsidiaries(1)	Consolidating Adjustments	Consolidated
Net income	\$63,735	\$10,139	\$ 81,520	\$ (91,659)	\$ 63,735
Other comprehensive income (loss) on available-for-sale securities before reclassifications:					
Change in net unrealized gains and losses on securities with other-than-temporary impairments recorded	-	-	34	-	34
Change in net unrealized gains and losses on all other securities	-	-	29,330	-	29,330
Total change in net unrealized gains and losses	-	-	29,364	-	29,364
Reclassifications to net income on available-for-sale securities:					
Net realized gains on investments	-	-	-	-	-
Net impairment losses on investments	-	-	88	-	88
Total reclassifications to net income	-	-	88	-	88
Other comprehensive income (loss) before income taxes	-	-	29,452	-	29,452
Income tax benefit (expense)	-	-	(2,977)	-	(2,977)
Other comprehensive income (loss)	-	-	26,475	-	26,475
Other comprehensive income (loss) due to change in accumulated other comprehensive income (loss) of subsidiaries	26,475	5,529	5,529	(37,533)	-
Comprehensive income	\$90,210	\$15,668	\$ 113,524	\$ (129,192)	\$ 90,210

(1) Amounts represent an aggregation of the non-guarantor subsidiaries and exclude consolidating adjustments.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Condensed Consolidating Statement of Comprehensive Income

For the Three Months Ended March 31, 2013

	Platinum Holdings	Platinum Finance	Non-guarantor Subsidiaries(1)	Consolidating Adjustments	Consolidated
Net income	\$86,516	\$19,687	\$ 110,930	\$ (130,617)	\$ 86,516
Other comprehensive income (loss) on available-for-sale securities before reclassifications:					
Change in net unrealized gains and losses on securities with other-than-temporary impairments recorded	-	-	(414)	-	(414)
Change in net unrealized gains and losses on all other securities	-	-	5,810	-	5,810
Total change in net unrealized gains and losses	-	-	5,396	-	5,396
Reclassifications to net income on available-for-sale securities:					
Net realized gains on investments	-	-	(14,275)	-	(14,275)
Net impairment losses on investments	-	-	421	-	421
Total reclassifications to net income	-	-	(13,854)	-	(13,854)
Other comprehensive income (loss) before income taxes	-	-	(8,458)	-	(8,458)
Income tax benefit (expense)	-	-	1,871	-	1,871
Other comprehensive income (loss)	-	-	(6,587)	-	(6,587)
Other comprehensive income (loss) due to change in accumulated other comprehensive income (loss) of subsidiaries	(6,587)	(3,474)	(3,474)	13,535	-
Comprehensive income	\$79,929	\$16,213	\$ 100,869	\$ (117,082)	\$ 79,929

(1) Amounts represent an aggregation of the non-guarantor subsidiaries and exclude consolidating adjustments.

Platinum Underwriters Holdings, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2014 and 2013

Condensed Consolidating Statement of Cash Flows

For the Three Months Ended March 31, 2014

	Platinum Holdings	Platinum Finance	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash provided by (used in) operating activities	\$ (5,681)	\$ (297)	\$ 12,490	\$ (246)	\$ 6,266

Investing Activities:

Proceeds from sales of: