

**PLATINUM UNDERWRITERS
BERMUDA, LTD.**

Consolidated Financial Statements
(With Independent Auditors' Report Thereon)

December 31, 2008 and 2007



KPMG

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder
of Platinum Underwriters Bermuda, Ltd.

We have audited the accompanying consolidated balance sheets of Platinum Underwriters Bermuda, Ltd. and its subsidiary as of December 31, 2008 and 2007 and the related consolidated statements of operations and comprehensive income, statement of shareholder's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Platinum Underwriters Bermuda, Ltd. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Chartered Accountants
Hamilton, Bermuda
April 2, 2009

PLATINUM UNDERWRITERS BERMUDA, LTD.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007
(AMOUNTS IN THOUSANDS OF UNITED STATES DOLLARS, EXCEPT SHARE DATA)

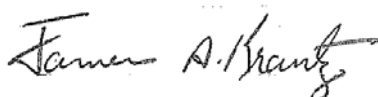
	2008	2007
ASSETS		
Investments:		
Fixed maturity available-for-sale securities at fair value (amortized cost – \$2,372,531 and \$2,326,062, respectively)	\$ 2,212,490	\$ 2,307,055
Fixed maturity trading securities at fair value (amortized cost – \$285,817 and \$146,578, respectively)	293,402	145,472
Preferred stocks (cost – \$861 and \$3,492, respectively)	824	2,856
Short-term investments	54,417	3,076
Total investments	2,561,133	2,458,459
Cash and cash equivalents	302,906	696,492
Accrued investment income	19,113	23,417
Reinsurance premiums receivable	74,925	136,696
Reinsurance recoverable on ceded losses and loss adjustment expenses	809	2,224
Prepaid reinsurance premiums	5,079	4,619
Funds held by ceding companies	111,779	137,860
Deferred acquisition costs	13,270	45,528
Intangible assets	–	3,059
Other assets	16,936	1,756
Total assets	\$ 3,105,950	\$ 3,510,110
LIABILITIES AND SHAREHOLDER'S EQUITY		
<u>Liabilities</u>		
Unpaid losses and loss adjustment expenses	\$ 1,633,949	\$ 1,716,426
Unearned premiums	60,694	169,072
Reinsurance deposit liabilities	7,726	7,221
Commissions payable	41,327	45,527
Other liabilities	31,561	27,892
Total liabilities	1,775,257	1,966,138
<u>Shareholder's Equity</u>		
Common shares, \$1 par value, 1,250,000 shares authorized, issued and outstanding	1,250	1,250
Additional paid-in capital	1,019,500	1,019,500
Accumulated other comprehensive loss	(160,038)	(19,603)
Retained earnings	469,981	542,825
Total shareholder's equity	1,330,693	1,543,972
Total liabilities and shareholder's equity	\$ 3,105,950	\$ 3,510,110

See accompanying notes to consolidated financial statements

Signed on behalf of the Board



Director



Director

PLATINUM UNDERWRITERS BERMUDA, LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	2008	2007
Revenue:		
Net premiums earned	\$ 576,525	\$ 821,118
Net investment income	136,240	146,846
Net realized investment gains (losses)	14,878	(1,032)
Other income (expense)	(730)	(728)
Total revenue	726,913	966,204
Expenses:		
Net losses and loss adjustment expenses	325,266	459,887
Net acquisition expenses	130,915	154,551
Net change in fair value of derivatives	14,114	5,007
Operating expenses	27,160	30,983
Amortization of intangibles	3,059	6,475
Net foreign currency exchange gains	(757)	(2,100)
Total expenses	499,757	654,803
Net income	\$ 227,156	\$ 311,401
Comprehensive income:		
Net income	\$ 227,156	\$ 311,401
Other comprehensive income:		
Net change in unrealized gains and losses on available-for-sale securities	(141,857)	11,907
Less reclassification adjustment for net losses included in net income	1,422	1,715
Other	-	(6)
Comprehensive income	\$ 86,721	\$ 325,017

See accompanying notes to consolidated financial statements

PLATINUM UNDERWRITERS BERMUDA, LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	<u>Common share capital</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained earnings</u>	<u>Total shareholder's equity</u>
Balances at December 31, 2006	\$ 1,250	\$ 1,019,500	\$ (33,219)	\$ 256,424	\$ 1,243,955
Net income	-	-	-	311,401	311,401
Net change in unrealized gains and losses on available-for-sale securities	-	-	13,622	-	13,622
Other	-	-	(6)	-	(6)
Dividends paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>	<u>(25,000)</u>
Balances at December 31, 2007	1,250	1,019,500	(19,603)	542,825	1,543,972
Net income	-	-	-	227,156	227,156
Net change in unrealized gains and losses on available-for-sale securities	-	-	(140,435)	-	(140,435)
Dividends paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>(300,000)</u>	<u>(300,000)</u>
Balances at December 31, 2008	<u>\$ 1,250</u>	<u>\$ 1,019,500</u>	<u>\$ (160,038)</u>	<u>\$ 469,981</u>	<u>\$ 1,330,693</u>

See accompanying notes to consolidated financial statements

PLATINUM UNDERWRITERS BERMUDA, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	2008	2007
<u>Operating Activities:</u>		
Net income	\$ 227,156	\$ 311,401
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	6,225	10,085
Net realized investment (gains) losses	(14,878)	1,734
Trading securities activities, net	(139,715)	(70,974)
Changes in assets and liabilities:		
(Increase) decrease in accrued investment income	4,304	(4,254)
Decrease in reinsurance premiums receivable	61,771	94,221
Decrease in funds held by ceding companies	26,081	9,495
Decrease in deferred acquisition costs	32,258	6,390
Increase (decrease) in net unpaid losses and loss adjustment expenses	(81,062)	139,184
Decrease in net unearned premiums	(108,838)	(62,306)
Increase in reinsurance deposit liabilities	505	473
Decrease in ceded premiums payable	-	(4,177)
Decrease in commissions payable	(4,200)	(23,812)
Changes in other assets and liabilities	(4,399)	(47,965)
Net cash provided by operating activities	5,208	359,495
<u>Investing Activities:</u>		
Proceeds from sale of available-for-sale securities	1,113,456	223,095
Proceeds from sale of preferred stocks	120	-
Proceeds from maturity or paydown of available-for-sale securities	741,816	1,109,584
Proceeds from sale of other invested asset	-	4,745
Acquisition of available-for-sale securities	(1,902,963)	(1,522,087)
Net change in short-term investments	(51,341)	14,207
Net cash used in investing activities	(98,912)	(170,456)
<u>Financing Activities:</u>		
Dividends paid to shareholder	(300,000)	(25,000)
Net cash used in financing activities	(300,000)	(25,000)
Effect of foreign currency exchange rate changes on cash	118	28
Net increase (decrease) in cash and cash equivalents	(393,586)	164,067
Cash and cash equivalents at beginning of year	696,492	532,425
Cash and cash equivalents at end of year	\$ 302,906	\$ 696,492

See accompanying notes to consolidated financial statements

PLATINUM UNDERWRITERS BERMUDA, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

1. **Basis of Presentation and Summary of Significant Accounting Policies**

Basis of Presentation and Consolidation

Platinum Underwriters Bermuda, Ltd. ("Platinum Bermuda") was incorporated under the laws of Bermuda in 2002. During 2002 we received our license as a Class 4 insurer under the Insurance Act, 1978 of Bermuda and related regulations to write all classes of property and casualty business. Platinum Underwriters Holdings, Ltd. ("Platinum Holdings"), our parent company, is a Bermuda domiciled holding company and listed on the New York Stock Exchange. Platinum Holdings also has reinsurance subsidiaries in the U.S., Platinum Underwriters Reinsurance, Inc. ("Platinum US"), and in the U.K., Platinum Re (UK) Limited ("Platinum UK"). Platinum Bermuda began providing reinsurance coverage in 2003. During 2004, we also received a license as a Long-Term Insurer under the Insurance Act, 1978 of Bermuda.

We provide property and marine, casualty, and finite risk reinsurance coverages, through reinsurance intermediaries, to a diverse clientele of insurers and select reinsurers on a worldwide basis, as well as to Platinum US and Platinum UK. We have not written any long-term business but may underwrite such business in the future.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). These financial statements include the accounts of Platinum Bermuda and Platinum UK Services Company Limited ("PLUSCo"). PLUSCo is a wholly owned subsidiary based in the United Kingdom that was organized in 2006. PLUSCo provides catastrophe loss modeling services to Platinum Bermuda. All material intercompany transactions have been eliminated in preparing these consolidated financial statements.

Certain 2007 amounts have been reclassified in the consolidated balance sheets, in the consolidated statement of operations and in the consolidated statement of cash flows to conform to the 2008 presentation.

Summary of Significant Accounting Policies

Investments

Fixed maturity securities we own that we may not have the positive intent to hold until maturity and preferred stocks are classified as available-for-sale and reported at fair value, with unrealized gains and losses excluded from net income and reported in other comprehensive income as a separate component of shareholder's equity. Fixed maturity securities we own and have the intent to sell prior to maturity, or securities for which we have elected the fair value measurement attributes of Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"), are classified as trading securities and reported at fair value, with mark-to-market adjustments included in net realized investment gains (losses). Securities classified as trading securities are generally foreign currency denominated securities intended to match net liabilities denominated in foreign currencies in order to minimize net exposures arising from fluctuations in foreign currency exchange rates.

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The fair values of fixed maturity securities, preferred stocks, and short-term investments are based on prices obtained from independent sources for those or similar investments using quoted prices in active and standard market valuation pricing models at the reporting date. Short-term investments mature within one year from the purchase date.

Premiums and discounts on fixed maturity securities are amortized into interest income over the life of the security under the effective yield method. Premiums and discounts on mortgage-backed and asset-backed securities are amortized into interest income based on prepayment assumptions. These assumptions are consistent with the current interest rate and economic environment. The prospective adjustment method is used to value mortgage-backed and asset-backed securities.

Realized gains and losses on sales of securities are determined on the basis of the specific identification method. If we determine that an unrealized loss on a security is “other-than-temporary,” we write down the carrying value of the security to fair value and record a realized loss in the consolidated statement of operations.

Cash and Cash Equivalents

Cash and cash equivalents are carried at cost, which approximates fair value, and include all securities that, at their purchase date, have a maturity of less than 90 days. Cash and cash equivalents consist primarily of investments in money market funds, time deposits and short-term obligations of the U.S. government and its agencies.

Premium Revenues

Assumed reinsurance premiums are recognized as revenues when premiums become earned, which generally occurs proportionately over the coverage period. Net premiums earned are recorded in the consolidated statement of operations, net of the cost of retrocession. Net premiums written not yet recognized as revenue are recorded in the consolidated balance sheet as unearned premiums, gross of any ceded unearned premiums.

Due to the nature of reinsurance, ceding companies routinely report and remit premiums subsequent to the contract coverage period. Consequently, reinsurance premiums written include estimates of premiums that are written but not reported (“WBNR”). In addition to estimating WBNR, we estimate the portion of premium earned but not reported (“EBNR”). The estimates of WBNR and EBNR are based on amounts reported by the ceding companies, information obtained during audits, and other information received from ceding companies. We also estimate the expenses associated with EBNR in the form of losses, loss adjustment expenses (“LAE”), and commissions. As actual premiums are reported by ceding companies, management evaluates the appropriateness of the premium estimates and any adjustments to these estimates, to the extent they represent earned premiums, are accounted for as changes in estimates and are reflected in the results of operations in the period in which they are made. Adjustments to original premium estimates could be material and could significantly impact earnings in the period they are recorded.

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Certain of our reinsurance contracts include provisions that adjust premiums or acquisition expenses based upon the experience under the contracts. Premiums or commissions are adjusted in such instances based on actual loss experience under the contracts. Reinstatement premiums are the premiums charged for the restoration of the reinsurance limit of a reinsurance contract to its full amount, generally coinciding with the payment by the reinsurer of losses. These premiums relate to the future coverage obtained for the remainder of the initial contract term and are earned over the remaining contract term. Any unearned premium existing at the time a contract limit is exhausted or reinstated is immediately earned. Additional premiums are premiums triggered by losses and are immediately earned. Reinstatement premiums and additional premiums are recognized in accordance with the provisions of assumed reinsurance contracts, based on loss experience under such contracts. An allowance for uncollectible premiums is established for possible non-payment of premiums receivable, as deemed necessary. As of December 31, 2008 and 2007, based on our historical experience, the general profile of our ceding companies, and our ability in most cases to contractually offset those premium receivables against losses and LAE or other amounts payable to the same parties, we did not establish an allowance for uncollectible premiums receivable.

Funds Held by Ceding Companies

We may write business on a funds held basis from time to time. Under these contractual arrangements, the ceding company holds the net funds that would otherwise be remitted to us and generally credits the funds held balance with interest income at a negotiated rate established in the contract. Interest income on funds held by ceding companies is included in net investment income.

Deferred Acquisition Costs

Costs of acquiring business, consisting primarily of commissions and other underwriting expenses that vary with and are directly related to the production of business, are deferred and amortized over the period that the corresponding premiums are earned. On a regular basis, an analysis of the recoverability of deferred acquisition costs is performed based on the estimated profitability of the underlying reinsurance contracts including anticipated investment income. Any adjustments are reflected in the results of operations in the period in which they are made. A liability is established, if necessary, to provide for losses that may exceed the related unearned premiums. Deferred acquisition costs amortized in 2008 and 2007 were \$106,532 and \$117,223, respectively.

Intangible Assets

Intangible assets with definitive lives are amortized over their estimated useful lives. We evaluate the value of our intangible assets on a routine basis to determine if any impairment exists. If we determine that impairment exists, we write down the carrying value of the intangible asset to fair value and record a loss in the consolidated statement of operations.

Unpaid Losses and LAE

Unpaid losses and LAE are estimated based upon reports received from ceding companies, supplemented by our estimates of losses for which ceding company reports have not been received, our historical experience for unreported claims and industry experience for unreported claims. Unpaid losses and LAE include estimates of the cost of claims that were reported, but not yet paid, and the cost of claims incurred but not yet reported ("IBNR").

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Unpaid losses and LAE represent management's best estimate at a given point in time and are subject to the effects of trends in loss severity and frequency. These estimates are reviewed regularly and adjusted as experience develops or new information becomes available. Any such adjustments are accounted for as changes in estimates and reflected in the results of operations in the period in which they are made. It is possible that the ultimate liability may materially differ from such estimates.

Reinsurance Ceded

Premiums written, premiums earned, and net losses and LAE reflect the net effects of assumed and ceded reinsurance transactions. Reinsurance accounting is followed for assumed and ceded transactions when risk transfer requirements have been met. Risk transfer analysis evaluates significant assumptions relating to the amount and timing of expected cash flows, as well as the interpretation of underlying contract terms. Reinsurance contracts that do not transfer sufficient insurance risk are accounted for as deposits.

Estimated amounts recoverable from retrocessionaires on unpaid losses and LAE are determined based on our estimate of assumed ultimate losses and LAE and the terms and conditions of our retrocessional contracts. The estimates of retroceded amounts recoverable are reflected as assets.

Reinsurance Deposit Liabilities

Reinsurance contracts that we enter into which we determine do not transfer sufficient insurance risk are accounted for as deposits, whereby liabilities are initially recorded for the same amount as assets received. Interest expense related to the deposit is recognized as incurred. Profit margins are earned over the settlement period of the contractual obligations.

Foreign Currency Exchange Gains and Losses

Our reporting currency is the U.S. dollar. Transactions conducted in other currencies are remeasured to U.S. dollars and the resulting foreign exchange gains and losses are included in net foreign currency exchange gains or losses.

Use of Estimates

Our financial statements include estimates and valuation assumptions that have an effect on the amounts reported. The most significant estimates are those relating to unpaid losses and LAE, written and unearned premium, valuation of investments, and evaluation of risk transfer. These estimates are continually reviewed and adjustments made as necessary, but actual results could be significantly different than expected at the time such estimates are made. Results of changes in estimates are reflected in results of operations in the period in which the change is made.

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Recently Issued Accounting Standards

We adopted Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“SFAS 157”) as of January 1, 2008. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 clarifies that fair value is a market-based measurement, not an entity-specific measurement, focuses on how to measure fair value and establishes a three-level hierarchy for both measurement and disclosure purposes. SFAS 157 establishes a framework for measuring fair value and expands disclosures regarding fair value measurements in accordance with U.S. GAAP. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to fair values derived from unobservable inputs (Level 3). The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety.

We adopted Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”) as of January 1, 2008. SFAS 159 permits an entity to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial assets and liabilities and certain other items. Most provisions of SFAS 159 are elective. Entities electing the fair value measurement attributes of SFAS 159 are required to recognize changes in fair values in earnings and to expense upfront costs and fees associated with the items for which the fair values option is elected.

In January 2009, the FASB issued FASB Staff Position EITF 99-20-1, “Amendments to the Impairment Guidance of EITF Issue No. 99-20” (“FSP EITF 99-20-1”). FSP EITF 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, “Recognition of Interest Income and Impairment on Purchased Beneficial Interest and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets” to achieve a determination more consistent with Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities” of whether an other-than-temporary impairment has occurred. The amendment to EITF 99-20 removes the exclusive reliance on “market participant” estimates of future cash flows in determining the fair value of a security. Changing the cash flows used to analyze other-than-temporary impairment from the market participant view to a holder’s estimate of whether there has been a “probable” adverse change in estimated cash flows allows us to apply reasonable judgment in assessing whether or not an other-than-temporary impairment has occurred.

PLATINUM UNDERWRITERS BERMUDA, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
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2. **Investments**

Available-for-sale Securities

The following table sets forth our fixed maturity available-for-sale securities and preferred stocks as of December 31, 2008 and 2007:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>December 31, 2008:</u>				
U.S. Government	\$ —	—	—	\$ —
U.S. Government agencies	697,022	20,420	15	717,427
Corporate bonds	602,134	3,881	36,336	569,679
Mortgage-backed and asset-backed securities	992,250	8,671	155,514	845,407
Municipal bonds	12,242	44	621	11,665
Non-U.S. governments and states	68,883	1,040	1,611	68,312
Total fixed maturity available-for-sale securities	<u>2,372,531</u>	<u>34,056</u>	<u>194,097</u>	<u>2,212,490</u>
Preferred stocks	861	—	37	824
Total available-for-sale securities	<u>\$ 2,373,392</u>	<u>34,056</u>	<u>194,134</u>	<u>\$ 2,213,314</u>
<u>December 31, 2007:</u>				
U.S. Government	\$ 56,012	744	53	\$ 56,703
U.S. Government agencies	488,374	1,930	95	490,209
Corporate bonds	601,806	1,871	12,994	590,683
Mortgage-backed and asset-backed securities	1,139,079	5,903	16,180	1,128,802
Municipal bonds	5,311	—	86	5,225
Non-U.S. governments and states	35,480	95	142	35,433
Total fixed maturity available-for-sale securities	<u>2,326,062</u>	<u>10,543</u>	<u>29,550</u>	<u>2,307,055</u>
Preferred stocks	3,492	18	654	2,856
Total available-for-sale securities	<u>\$ 2,329,554</u>	<u>10,561</u>	<u>30,204</u>	<u>\$ 2,309,911</u>

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

PLATINUM UNDERWRITERS BERMUDA, LTD.
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Trading Securities

The following table sets forth our fixed maturity trading securities as of December 31, 2008 and 2007:

	Fair Value at December 31,	
	2008	2007
U.S. Government	\$ 196,383	\$ –
Non-U.S. dollar denominated securities:		
Corporate bonds	4,125	12,027
Non-U.S. governments and states	92,894	133,445
Total trading securities	\$ <u>293,402</u>	\$ <u>145,472</u>

Net realized investment gains (losses) include mark-to market adjustments of \$8,691 and \$700 on trading securities for the years ended December 31, 2008 and 2007, respectively.

We elected to apply the fair value measurement attributes of SFAS 159 to our investments in U.S. Government treasury inflation-protected securities (“TIPS”). We believe that recognizing changes in the fair value of the TIPS in net realized investment gains (losses) in the consolidated statement of operations is a better presentation of the total return on these securities. We have included TIPS at a fair value of \$196,383 in our fixed maturity trading securities on the consolidated balance sheets, and have recorded a favorable change in the mark-to-market of \$1,249 in net realized investment gains (losses) in the consolidated statement of operations.

Unrealized Gains and Losses

Net change in unrealized investment gains (losses) on our available-for-sale securities for the years ended December 31, 2008 and 2007 were \$(140,435) and \$13,622, respectively.

Gross unrealized gains and losses on available-for-sale securities as of December 31, 2008 were \$34,056 and \$194,134, respectively. As of December 31, 2008, there were a total of 242 issues in an unrealized loss position in our investment portfolio, with the single largest unrealized loss being an asset-backed security with an amortized cost of \$10,088 and an unrealized loss of \$8,383. Corporate, mortgage-backed and asset-backed securities represent the largest categories within our available-for-sale portfolio and consequently accounted for the greatest amount of our overall unrealized loss as of December 31, 2008. Investment holdings within our corporate bond portfolio were diversified across approximately 30 industry sectors and within each sector across many individual issuers and issues. As of December 31, 2008 there were 124 corporate issues in an unrealized loss position, with the single largest unrealized loss being \$3,026 on a security with an amortized cost of \$5,276. Investment holdings within the mortgage-backed and asset-backed portfolio were diversified across a number of sub-categories. As of December 31, 2008, there were 109 issues within the mortgage-backed and asset-backed portfolio in an unrealized loss position.

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The following table sets forth our unrealized losses on securities classified as available-for-sale aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2008 and 2007:

	December 31, 2008		December 31, 2007	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<u>Less than twelve months:</u>				
U.S. government	\$ —	—	—	\$ —
U.S. government agencies	9,037	15	45,676	34
Corporate bonds	265,842	15,320	146,720	3,429
Mortgage-backed and asset-backed securities	364,128	83,587	270,190	7,585
Municipal bonds	4,954	621	—	—
Non-U.S. governments and states	24,075	1,359	5,807	1
Preferred stocks	824	37	—	—
Total	\$ 668,860	100,939	468,393	\$ 11,049
<u>Twelve months or more:</u>				
U.S. government	\$ —	—	2,012	\$ 53
U.S. government agencies	—	—	10,974	61
Corporate bonds	125,552	21,016	278,660	9,565
Mortgage-backed and asset-backed securities	137,110	71,927	359,815	8,595
Municipal bonds	—	—	5,225	86
Non-U.S. governments and states	1,463	252	8,486	141
Preferred stocks	—	—	1,839	654
Total	\$ 264,125	93,195	667,011	\$ 19,155
<u>Total unrealized losses:</u>				
U.S. government	\$ —	—	2,012	\$ 53
U.S. government agencies	9,037	15	56,650	95
Corporate bonds	391,394	36,336	425,380	12,994
Mortgage-backed and asset-backed securities	501,238	155,514	630,005	16,180
Municipal bonds	4,954	621	5,225	86
Non-U.S. governments and states	25,538	1,611	14,293	142
Preferred stocks	824	37	1,839	654
Total	\$ 932,985	194,134	1,135,404	\$ 30,204

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We routinely review our available-for-sale investments to determine whether unrealized losses represent temporary changes in fair value or were the result of “other-than-temporary impairments.” The process of determining whether a security is other-than-temporarily impaired requires judgment and involves analyzing many factors. These factors include, but are not limited to: the overall financial condition of the issuer, the length and magnitude of an unrealized loss, specific credit events, the collateral structure and the credit support that may be applicable to mortgage-backed and asset-backed securities. We also consider our ability and intent to hold a security for a sufficient period of time for the value to recover the unrealized loss, which is based, in part, on current and anticipated future positive net cash flows from operations that generate sufficient liquidity in order to meet our obligations. If we determine that an unrealized loss on a security is other-than-temporary, we write down the carrying value of the security and record a realized loss in the consolidated statement of operations.

Our mortgage-backed and asset-backed securities primarily consisting of residential mortgage-backed securities and commercial mortgage-backed securities, represents our largest unrealized loss position as of December 31, 2008. Our non-agency residential mortgage-backed securities include securities with underlying prime, sub-prime and Alt-A mortgages. We analyze our residential mortgage-backed securities on a periodic basis using default loss models based on the performance of the underlying loans. Performance metrics include but are not limited to: delinquencies, defaults, foreclosures, prepayment speeds and cumulative losses incurred. The expected losses for a mortgage pool are compared to the break-even loss, which represents the point at which our tranche begins to experience losses. We also perform a sensitivity analysis of the variables that may result in expected losses greater than the break-even loss. We evaluate projected cash flows as well as other factors in order to determine if our security is other-than-temporarily impaired. For the year ended December 31, 2008, we recorded \$14,800 of other-than-temporary impairment charges related to non-agency residential mortgage-backed securities. Our commercial mortgage-backed securities are evaluated on a periodic basis using analytical techniques and various metrics including but not limited to the level of subordination, debt-service-coverage ratios, loan-to-value ratios, delinquencies, defaults and foreclosures. We currently expect to collect the cash flows from principal repayments and interest payments associated with our commercial mortgage-backed securities and do not consider these investments to be other-than-temporarily impaired as of December 31, 2008.

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

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Net Investment Income

The following table sets forth our net investment income for the years ended December 31, 2008 and 2007:

	2008	2007
Fixed maturity securities	\$ 122,440	\$ 125,090
Short-term investments and cash and cash equivalents	13,925	22,099
Funds held	2,796	3,368
Subtotal	139,161	150,557
Less investment expenses	2,921	3,711
Net investment income	\$ 136,240	\$ 146,846

Net Realized Investment Gains and Losses

Proceeds from sales, maturities and calls of fixed maturity available-for-sale securities were \$1,855,272 and \$1,332,679 for the years ended December 31, 2008 and 2007, respectively. Proceeds from sales, maturities and calls of fixed maturity trading securities were \$60,611 and \$6,832 for the years ended December 31, 2008 and 2007, respectively. Proceeds from sales of preferred stock were \$120 for the year ended December 31, 2008. There were no sales of preferred stocks in 2007.

The following table sets forth our net realized investment gains and losses for the years ended December 31, 2008 and 2007:

	2008	2007
Net gains (losses) on the sale of investments:		
Gross realized gains	\$ 35,201	\$ 49
Gross realized losses	(5,286)	(972)
Subtotal	29,915	(923)
Mark-to-market adjustments on trading securities	8,749	700
Other-than-temporary impairments	(23,786)	(809)
Net realized investment gains (losses)	\$ 14,878	\$ (1,032)

During the second half of 2008, the financial markets experienced a loss of liquidity and significant adverse credit events that in turn led to widespread declines in the value of financial instruments. As a consequence, the fair values of the securities in our available-for-sale investment portfolio decreased significantly during the same period. Charges relating to other-than-temporary impairments were \$23,786 and \$809 for the years ended December 31, 2008 and 2007, respectively. The other-than-temporary impairments we recorded during 2008 included \$10,894 of non-agency residential mortgage-backed securities, \$7,355 of corporate bonds, \$3,906 of Alt-A residential mortgage-backed securities and subprime asset-backed securities, and \$1,631 of perpetual preferred stocks. These charges were included in net realized investment gains (losses) in the consolidated statement of operations.

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Maturities

The following table sets forth the amortized cost and fair value of our fixed maturity available-for-sale and trading securities by contractual maturity as of December 31, 2008, actual maturities could differ from contractual maturities due to call or prepayment provisions:

	Amortized Cost	Fair Value
Due in one year or less	\$ 142,613	\$ 142,614
Due from one to five years	1,164,480	1,177,658
Due from five to ten years	262,561	261,407
Due in ten or more years	96,444	78,806
Mortgage-backed and asset-backed securities	992,250	845,407
Total	<u>\$ 2,658,348</u>	<u>\$ 2,505,892</u>

Restricted Investments

Investments with a carrying value of \$1,272,413 and cash and cash equivalents of \$63,900 as of December 31, 2008 were held in trust or pledged to collateralize obligations under various reinsurance contracts. Investments with a carrying value of \$111,693 and cash and cash equivalents of \$39,270 as of December 31, 2008 were held in trust to collateralize letters of credit issued under the Credit Facility as described in note 7 to these financial statements.

3. Fair Value Measurements

The following table sets forth the carrying amounts and estimated fair values of our financial instruments as of December 31, 2008 and 2007:

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Financial assets:</u>				
Fixed maturity securities	\$ 2,505,892	2,505,892	2,452,527	\$ 2,452,527
Preferred stocks	824	824	2,856	2,856
Short-term investments	54,417	54,417	3,076	3,076
<u>Financial liabilities:</u>				
Derivative instruments	4,753	4,753	-	-

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We consider prices for actively traded treasury securities and exchange traded preferred stocks to be based on quoted prices in active markets for identical assets (Level 1 as defined by SFAS 157). The fair values of our other fixed maturities, which generally include mortgage-backed and asset-backed securities, corporate bonds, municipal bonds, and bonds issued by U.S. government-sponsored enterprises, non-U.S. governments and states, are based on prices obtained from independent pricing vendors, index providers, or broker-dealers using observable inputs (Level 2 as defined by SFAS 157). The observable inputs used in standard market valuation pricing models may include but are not limited to: credit ratings, interest rates and yield curves at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates. The fair values of our derivative instruments, which are included in other liabilities in the consolidated balance sheet, are determined by management primarily using unobservable inputs through the application of our own assumptions and internal valuation pricing models (Level 3 as defined by SFAS 157).

The following table sets forth the fair value measurement levels for all assets and liabilities which the Company has recorded at fair value as of December 31, 2008:

	Total	Fair Value Measurement Using:		
		Level 1	Level 2	Level 3
<u>Financial assets:</u>				
Fixed maturity available-for-sale securities	\$ 2,212,490	18,741	2,193,749	\$ –
Fixed maturity trading securities	293,402	222,456	70,946	–
Preferred stocks	824	824	–	–
Short-term investments	54,417	–	54,417	–
Total	<u>\$ 2,561,133</u>	<u>242,021</u>	<u>2,319,112</u>	<u>\$ –</u>
<u>Financial liabilities:</u>				
Derivative instruments	4,753	–	–	4,753
Total	<u>\$ 4,753</u>	<u>–</u>	<u>–</u>	<u>\$ 4,753</u>

The following table sets forth the reconciliation of the beginning and ending fair value measurements of our Level 3 liabilities, consisting of derivative instruments, measured at fair value using significant unobservable inputs for the twelve months ended December 31, 2008:

Beginning balance at January 1, 2008	\$ –
Purchases, issuances, and settlements	9,361
Total unrealized and realized losses included in earnings	(14,114)
Ending balance at December 31, 2008	<u>(4,753)</u>
Losses for the period attributable to the change in unrealized losses relating to liabilities outstanding	<u>\$ 7,154</u>

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The change in unrealized losses of \$4,753 relating to derivative instruments outstanding was included in the net change in fair value of derivatives included in the consolidated statement of operations for the year ended December 31, 2008. We settled balances of \$9,361 on derivatives during the year ended December 31, 2008 and such payments were also included in the net change in fair value of derivatives in the consolidated statement of operations.

4. **Derivative Contracts**

We entered into four derivative contracts during 2008, of which two were option agreements to purchase industry loss warranty retrocessional protection. The related option fees of \$1,450 were included in the net change in fair value of derivatives in the consolidated statement of operations in 2008.

The third derivative was a contract under which we could have recovered up to \$120,000 from the counterparty if modeled losses from both a first and second catastrophe event resulting from U.S. wind, California earthquake or European wind exceeded a specified attachment point. The term of this contract was from January 1, 2008 to December 31, 2008, at a cost of \$5,510. The attachment point was not reached and no recovery was recorded for 2008. The total cost of the derivative was included in the net change in fair value of derivatives in the consolidated statement of operations.

The fourth derivative contract we entered into in 2008 was an agreement with Topiary Capital Limited (“Topiary”), a Cayman Islands special purpose vehicle. Under the terms of our agreement with Topiary, we will pay to Topiary approximately \$9,650 during each of the three annual periods commencing August 1, 2008. In return the agreement provides us with the ability to recover up to \$200,000 should two catastrophic events involving U.S. wind, U.S. earthquake, European wind, or Japanese earthquake occur that meet specified loss criteria during any of the three annual periods. Both the initial activation event and the qualifying second event must occur in the same annual period. The maximum amount that we can recover over the three-year period is \$200,000. Topiary’s limit of loss is collateralized with high quality investment grade securities in a secured collateral account. The performance of the securities in the collateral account is guaranteed under a total swap agreement with Goldman Sachs International whose obligations under the swap agreement are guaranteed by Goldman Sachs Group, Inc. Any recovery we make under this contract is based on an index using insured property industry loss estimates that are compiled by Property Claim Services, a division of Insurance Services Offices, Inc., for certain U.S. perils, and parametric triggers for certain non-U.S. perils, and is not based on actual losses we may incur. Consequently, the transaction was accounted for as a derivative and was carried at the estimated net fair value. The resulting net liability of \$4,753 was included in other liabilities on our consolidated balance sheet. The change in net fair value of \$7,154 was included in the change in fair value of derivatives in our consolidated statement of operations. One-time fees and expenses of \$4,339 related to the agreement with Topiary were included in operating expenses for the year ended December 31, 2008.

Topiary is a variable interest entity under the provisions of FASB Interpretation No. 46R “Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.” As we have no investment in and are not the primary beneficiary of Topiary, we did not include this entity in our consolidated financial statements.

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5. **Unpaid Losses and LAE**

The following table sets forth activity in the liability for unpaid losses and LAE for the years ended December 31, 2008 and 2007:

	2008	2007
Net unpaid losses and LAE as of January 1,	\$ 1,714,202	\$ 1,575,031
Loss portfolio transfer from Platinum UK (see Note 12)	-	89,417
Net incurred related to:		
Current year	453,510	428,888
Prior years	(128,244)	(58,418)
Total incurred net losses and LAE	325,266	370,470
Net paid losses and LAE:		
Current year	75,400	47,211
Prior year	307,825	283,624
Total net paid losses and LAE	383,225	330,835
Net effects of foreign currency exchange rate changes	(23,027)	10,119
Net unpaid losses and LAE as of December 31,	1,633,216	1,714,202
Reinsurance recoverable on unpaid losses	733	2,224
Gross unpaid losses and LAE as of December 31,	\$ 1,633,949	\$ 1,716,426

The net incurred loss in 2008 related to current year includes \$180,839 of losses related to Hurricanes Gustav and Ike. Net of reinstatement premium and acquisition expenses the net loss related to Hurricanes Gustav and Ike in 2008 was \$154,358.

The net favorable loss development in 2008 and 2007 related to prior years included \$128,093, and \$53,555, respectively, of net favorable loss development as a result of favorable movement in ultimate loss ratios. The net favorable loss development in 2008 and 2007 related to prior years also included changes in net incurred losses and LAE associated with changes in estimates of premiums and the patterns of their earnings. The net increase (decrease) of losses and LAE related to prior accident years arising from changes in premium estimates were \$5,722 and \$(4,863) in 2008 and 2007, respectively. The effect on net income of changes in premium estimates, after considering corresponding changes in related losses, LAE and acquisition expenses, was not significant.

The net favorable loss development related to prior years emerged from all segments and was related to both catastrophe and non-catastrophe losses. The net favorable loss development in 2008 arose in all segments. The Property and Marine segment had \$47,178 of net favorable loss development, of which \$11,351 related to major catastrophes in prior years. The remainder of the net favorable loss development is attributable to non-major catastrophe, property risk and crop classes of business. The Casualty segment had \$55,337 of net favorable loss development, of which \$47,601 was from certain long-tailed casualty classes. The majority of the long-tailed casualty net favorable loss development was from the claims made classes. The Finite Risk segment experienced net favorable loss development of \$19,856 which was substantially all offset by adjustments to commissions.

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The most significant portion of net favorable loss development in 2007 was in the Property and Marine segment and in certain classes in the Casualty segment. Net favorable loss development in the Property and Marine segment in 2007 included \$7,314 related to prior years' major catastrophes. Net favorable loss development in 2007 included \$15,037 from certain long-tailed casualty classes. The net favorable loss development in 2008 and 2007 from all segments resulted from reported loss experience that was less than expected and that gained sufficient credibility in the current period to reduce estimated ultimate losses.

We do not believe that the net favorable development in 2008 is indicative of prospective net development of unpaid losses and LAE as of December 31, 2008 because conditions and trends that affected the net favorable development of prior years' unpaid losses and LAE may not necessarily exist in the future.

Because many of the reinsurance coverages we offer will likely involve claims that may not ultimately be settled for many years after they are incurred, subjective judgments as to ultimate exposure to losses are an integral and necessary component of the process of estimating unpaid losses and LAE. With respect to reinsurers, the inherent uncertainties of estimating unpaid losses and LAE are further exacerbated by the significant amount of time that often elapses between the occurrence of an insured loss, the reporting of that loss to the primary insurer and then to the reinsurer, and the primary insurer's payment of that loss to the insured and subsequent payment by the reinsurer to the primary insurer. Unpaid losses and LAE are reviewed quarterly using a variety of statistical and actuarial techniques to analyze current claim costs, frequency and severity data and prevailing economic, social and legal factors. Unpaid losses and LAE established in prior years are adjusted as loss experience develops and new information becomes available. Adjustments to previously estimated unpaid losses and LAE are reflected in financial results in the periods in which they are made.

6. **Retrocessional Reinsurance**

Reinsurance is the transfer of risk, by contract, from one insurance company to another for consideration of premium. Retrocessional reinsurance is reinsurance ceded by a reinsurer to insure against all or a portion of its reinsurance written. Retrocessional reinsurance agreements provide us with increased capacity to write larger risks, limit our maximum loss arising from any one occurrence, and maintain our exposure to loss within our capital resources. Retrocessional reinsurance contracts do not relieve us from our obligations under our contracts. Failure of retrocessionaires to honor their obligations could result in losses to us. Consequently, we have a contingent liability to the extent of any unpaid losses and LAE ceded to another company. We evaluate the financial condition of our reinsurers and monitor concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize our exposure to significant losses from reinsurer insolvencies.

During 2008 we entered into various industry loss warranty agreements with third party retrocessionaires. These reinsurance contracts provided retrocessional coverage for Platinum Bermuda for first and second catastrophic events in North America, Europe, and Japan.

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The following table set forth the effects of retrocessional reinsurance on premiums, losses and LAE for the years ended December 31, 2008 and 2007:

	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
<u>As of and for the year ended December 31, 2008:</u>			
Premiums written	\$ 489,378	17,785	\$ 471,593
Premiums earned	593,837	17,312	576,525
Losses and LAE	323,914	(1,352)	325,266
Unpaid losses and LAE	1,633,949	733	1,633,216
<u>As of and for the year ended December 31, 2007:</u>			
Premiums written	\$ 765,600	9,036	\$ 756,564
Premiums earned	827,051	5,933	821,118
Losses and LAE	455,402	(4,485)	459,887
Unpaid losses and LAE	1,716,426	2,224	1,714,202

7. **Credit Facility**

On September 13, 2006, Platinum Bermuda, Platinum Holdings, and certain other affiliates amended and restated a credit agreement with a syndicate of lenders, increasing the term from three to five years and increasing the facility from \$200,000 to \$400,000 (the "Credit Facility"). The amended and restated credit agreement consists of a \$150,000 senior unsecured credit facility available for revolving borrowings and letters of credit and a \$250,000 senior secured credit facility available for letters of credit. The revolving line of credit generally is available for working capital, liquidity, and general corporate requirements. Platinum Holdings and Platinum Underwriters Finance, Inc., a wholly owned subsidiary of Platinum Holdings, have guaranteed borrowings by the reinsurance subsidiaries, including Platinum Bermuda. The interest rate on borrowings under the Credit Facility is based on the election of either: (1) LIBOR plus 50 basis points or (2) the higher of: (a) the prime interest rate of the lead bank providing the credit facility, or (b) the federal funds rate plus 50 basis points. The interest rate based on LIBOR rate would increase or decrease by up to 12.5 basis points should Platinum Holdings' senior unsecured debt credit rating increase or decrease. The Credit Facility requires compliance with various covenants, including several financial covenants. As of December 31, 2008, Platinum Holdings and its subsidiaries were in compliance with all covenants under the Credit Facility.

We had approximately \$126,752 of letters of credit outstanding in favor of various cedants as of December 31, 2008. Investments with a carrying value of \$111,693 and cash and cash equivalents of \$39,270 as of December 31, 2008 were held in trust to collateralize letters of credit issued under the Credit Facility. As of December 31, 2008, \$150,000 was available for borrowing on an unsecured basis and \$68,652 was available for letters of credit on a secured basis under the Credit Facility.

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8. **Income Taxes**

Platinum Bermuda is incorporated under the laws of Bermuda and is subject to Bermuda law with respect to taxation. Under current Bermuda law, Platinum Bermuda is not taxed on any Bermuda income or capital gains and 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 Bermuda's operations, shares, debentures or other obligations until March 28, 2016.

We adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48") on January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 did not have any effect on our results of operations or financial condition.

9. **Shareholder's Equity and Regulation**

As a Class 4 insurer, Platinum Bermuda must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of the Insurance Act. Each year Platinum Bermuda is required to file with the Bermuda Monetary Authority (the "Authority") capital and solvency return within four months of its relevant financial year end (unless specifically extended).

The prescribed form of capital and solvency return, which was revised under new legislation enacted in 2008, comprises the insurer's Bermuda Solvency Capital Requirement ("BSCR") model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities. The BSCR includes a standardized model used to measure the risk associated with an insurer's assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The Authority has provided for the use of pre-approved internally developed company models in lieu of the standardized BSCR. The Authority requires all Class 4 insurers to maintain their capital at a target level which is 120% of the minimum amount calculated in accordance with the BSCR or the company's approved internal model (the Enhanced Capital Requirement or "ECR").

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Statutory capital and surplus at December 31, 2008 and 2007, as determined using statutory accounting principles, is as follows:

	<u>2008</u>	<u>2007</u>
Total GAAP shareholder's equity	\$ 1,330,693	\$ 1,543,972
Less: non-admitted assets		
Deferred acquisition costs	13,270	45,528
Intangible assets	-	3,059
Other miscellaneous assets	<u>1,158</u>	<u>1,353</u>
Statutory capital and surplus	<u>1,316,265</u>	<u>1,494,032</u>
Consists of:		
Class 4 statutory capital and surplus	1,316,015	1,493,782
Long-Term statutory capital and surplus	<u>250</u>	<u>250</u>
Total statutory basis capital and surplus	<u>\$ 1,316,265</u>	<u>\$ 1,494,032</u>

The Insurance Act also requires an insurer engaged in general business to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable and reinsurance balances receivable. There are certain categories of assets which, unless specifically permitted by the Authority, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined).

At December 31, 2008 and 2007 we were required to maintain relevant assets of approximately \$1,326,932 and \$1,469,306, respectively. At those dates relevant assets were approximately \$3,083,682 and \$3,452,764, respectively, satisfying the minimum liquidity ratio tests.

Platinum Bermuda is prohibited from declaring or paying a dividend if it's Class 4 statutory capital and surplus is less than its ECR, or if it is in breach of it's solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause such breach. Further, Platinum Bermuda, as a Class 4 insurer, is prohibited from declaring or paying in any year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous year's statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the Authority an affidavit stating that it will continue to meet its solvency margin and minimum liquidity ratio. Platinum Bermuda must obtain the Authority's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's financial statements. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to those under the Companies Act 1981, which apply to all Bermuda companies. The maximum amount available for payment of dividends or other distributions in 2009 without prior regulatory approval is approximately \$329,004.

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As a long-term insurer Platinum Bermuda is required to keep its accounts in respect of its long-term business separate from any accounts kept in respect of any other business. Platinum Bermuda may not declare or pay a dividend out of its long-term business to any person other than a policyholder unless the value of the assets in its long-term business fund exceeds the liabilities of the insurer's long-term business by the amount of the dividend and at least the \$250 minimum solvency margin prescribed by the Insurance Act. We have not written any long-term business but may underwrite such business in the future.

10. **Intangible Assets**

During 2006, Platinum Bermuda acquired the renewal rights to portfolios of reinsurance contracts from Platinum US and Platinum UK. We recorded the fair value of the renewal rights as intangible assets and amortized the costs of the intangible assets over their estimated useful lives of approximately two years.

The following table sets forth the activity in intangible assets for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Cost:		
Balance at beginning of year	\$ 10,070	\$ 10,070
Additions	<u>—</u>	<u>—</u>
Balance at end of year	<u>10,070</u>	<u>10,070</u>
Accumulated Amortization:		
Balance at beginning of year	7,011	536
Amortization expense for the year	<u>3,059</u>	<u>6,475</u>
Balance at end of year	<u>10,070</u>	<u>7,011</u>
Net	<u>\$ —</u>	<u>\$ 3,059</u>

11. **Share Incentive Compensation**

Platinum Holdings' share incentive plan covers key employees of Platinum Holdings and its subsidiaries who may be granted options, restricted shares, share units, share appreciation rights, or other rights to acquire shares. Platinum Holdings 2006 share incentive plan provides for the granting of up to an aggregate 5,500,000 shares of common stock to employees and directors at a price equal to the closing price of common shares on the New York Stock Exchange on the date immediately preceding the date of grant. Share incentive plan awards are granted periodically and generally vest based over three or four years of continuous employment. The common shares issuable under the share incentive plan are made available from authorized but unissued common shares of Platinum Holdings. Option awards generally expire ten years from the date of grant.

Platinum Bermuda has an agreement to pay Platinum Holdings for the cost of share incentives granted to employees of Platinum Bermuda based on the fair value of share options, restricted shares or restricted share units on the date of issuance. The total compensation expense incurred by Platinum Bermuda under this agreement during the years ended December 31, 2008 and 2007 was \$2,372 and \$1,461, respectively.

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12. **Related Party Transactions and Agreements**

In 2003, Platinum US entered into a quota share retrocession agreement with Platinum Bermuda on a risks-attaching basis, with various amendments made from time to time. Platinum US continued its participation in its agreement with Platinum Bermuda until December 31, 2007. Although the agreement was terminated on December 31, 2007, premiums associated with this agreement continue to be earned and retroceded in 2008. Under its quota share retrocession agreement Platinum US retroceded approximately 13% and 49% of its business to Platinum Bermuda during the years ended December 31, 2008, and 2007, respectively.

Effective January 1, 2008, Platinum US provided Platinum Bermuda with \$75,000 of coverage in excess of \$275,000 with respect to European wind losses. This agreement was terminated on August 5, 2008. Effective August 5, 2008, Platinum Bermuda provided Platinum US with \$50,000 of cover per occurrence in excess of \$30,000 with respect to catastrophe losses.

In 2003, Platinum UK entered into a 55% quota share retrocession agreement with Platinum Bermuda on a risks-attaching basis, with various amendments made from time to time. Platinum UK continued its participation in its agreement with Platinum Bermuda until December 31, 2006.

During 2006, the scale and scope of Platinum Bermuda was expanded to become the principal carrier for Platinum Holdings and subsidiaries' global catastrophe and financial lines reinsurance portfolios, and in 2007 Platinum UK ceased underwriting reinsurance. Platinum UK filed a Scheme of Operations with the U.K. Financial Services Authority in 2007 that outlined actions for Platinum UK to become a non-underwriting operation and to return a significant portion of its capital to Platinum Holdings. These actions included several agreements for the transfer of the net underwriting liabilities and administration of in-force contracts and related claims from Platinum UK to Platinum Bermuda as of January 1, 2007. Among these agreements is a 100% loss portfolio transfer that replaced the previous quota share retrocession agreement. Pursuant to the loss portfolio transfer Platinum Bermuda assumed unpaid losses and LAE of \$89,417 from Platinum UK for consideration of \$80,032 with the difference between liabilities assumed and consideration received included in net losses and LAE.

During 2008, Platinum UK received approval from the U.K. Financial Services Authority to implement a novation program. The novation program sought the individual agreement of each of its cedants to novate the present and future liabilities arising under all contracts of reinsurance to Platinum Bermuda. As of January 1, 2009, Platinum UK has contracts remaining with 24 ceding companies.

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The following is a summary of the balances for the related party reinsurance transactions included within the financial statements:

	2008	2007
Reinsurance premiums receivable	\$ 17,163	\$ 100,349
Funds held by ceding companies	13,939	29,969
Deferred acquisition costs	6,615	38,635
Unpaid losses and loss adjustment expenses	1,136,033	1,347,029
Unearned premiums	23,280	127,972
Commissions payable	4,946	32,495
Other liabilities	15,403	16,399
Net premiums earned	205,187	433,075
Net incurred losses and loss adjustment expenses	125,749	278,818
Net acquisition expenses	61,635	109,131

Amounts due to parent and affiliates, which are included within other liabilities, represent amounts due to Platinum Holdings and its subsidiaries. Amounts due to parent and affiliates are unsecured and interest free. Net amounts due as of December 31, 2008 and 2007 are \$2,919 and \$1,163, respectively.

13. **Commitments and Contingencies**

Lease Commitments

Future minimum annual lease commitments under various non-cancelable operating leases for our office facilities are as follows:

Years Ending December 31,	
2009	\$ 616
2010	111
2011	90
Thereafter	—
Total	\$ 817

Platinum Bermuda subleases office space to Platinum Holdings. Rent expense of Platinum Bermuda and PLUSCo, net of sublet to Platinum Holdings, was \$539 and \$433 for the years ended December 31, 2008 and 2007, respectively.

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Contingencies

In November and December 2004, Platinum Holdings and subsidiaries received subpoenas from the SEC and the Office of the Attorney General for the State of New York for documents and information relating to certain non-traditional, or loss mitigation, insurance products. On June 14, 2005, Platinum Holdings and subsidiaries received a grand jury subpoena from the United States Attorney for the Southern District of New York requesting documents relating to its finite reinsurance products. Platinum has fully cooperated in responding to all such requests. Platinum is unable to predict the direction the investigation will take and the impact, if any, it may have on our business.

Litigation

In the normal course of business, we may become involved in various claims and legal proceedings. We are not currently aware of any pending or threatened material litigation.

14. **Subsequent Events**

Subsequent to December 31, 2008 Platinum Bermuda declared and paid dividends to Platinum Holdings of \$40,000.