

**PLATINUM UNDERWRITERS  
BERMUDA, LTD.**

**Consolidated Financial Statements**  
(With Independent Auditors' Report Thereon)

December 31, 2010 and 2009



**KPMG**

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**Independent Auditors' Report**

The Board of Directors and Shareholders of  
Platinum Underwriters Bermuda, Ltd.

We have audited the accompanying consolidated balance sheets of Platinum Underwriters Bermuda, Ltd. and subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive income, 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. and subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for other-than temporary impairments of debt securities in 2009.

Chartered Accountants  
Hamilton, Bermuda  
March 23, 2011

PLATINUM UNDERWRITERS BERMUDA, LTD.  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2010 AND 2009  
(AMOUNTS IN THOUSANDS OF UNITED STATES DOLLARS, EXCEPT SHARE DATA)

	2010	2009
<b>ASSETS</b>		
Investments:		
Fixed maturity available-for-sale securities at fair value (amortized cost – \$1,698,662 and \$2,109,950, respectively)	\$ 1,673,002	\$ 2,047,444
Fixed maturity trading securities at fair value (amortized cost – \$170,883 and \$128,831, respectively)	178,218	134,502
Preferred stocks (cost – \$nil and \$534, respectively)	-	976
Short-term investments	72,587	250
Total investments	1,923,807	2,183,172
Cash and cash equivalents	630,132	567,802
Accrued investment income	18,479	16,457
Reinsurance premiums receivable	68,760	63,875
Reinsurance recoverable on ceded losses and loss adjustment expenses	598	891
Prepaid reinsurance premiums	4,078	4,626
Funds held by ceding companies	79,606	80,184
Deferred acquisition costs	6,513	6,561
Other assets	9,904	125,948
Total assets	\$ 2,741,877	\$ 3,049,516
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<u>Liabilities</u>		
Unpaid losses and loss adjustment expenses	\$ 1,283,816	\$ 1,357,969
Unearned premiums	33,582	41,030
Commissions payable	26,975	38,848
Other liabilities	23,630	34,312
Total liabilities	1,368,003	1,472,159
<u>Shareholder's Equity</u>		
Common shares, \$1 par value, 3,000,000 (2009 - 1,250,000) shares authorized, issued and outstanding	3,000	1,250
Additional paid-in capital	1,017,750	1,019,500
Accumulated other comprehensive loss	(25,606)	(62,018)
Retained earnings	378,730	618,625
Total shareholder's equity	1,373,874	1,577,357
Total liabilities and shareholder's equity	\$ 2,741,877	\$ 3,049,516

See accompanying notes to consolidated financial statements.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	2010	2009
Revenue:		
Net premiums earned	\$ 342,110	\$ 347,786
Net investment income	85,162	114,622
Net realized gains on investments	56,814	60,078
Total other-than-temporary impairment losses	(20,315)	(23,090)
Portion of impairment losses recognized in accumulated other comprehensive loss	(3,520)	11,725
Net impairment losses on investments	(23,835)	(11,365)
Other (expense) income	(244)	2,627
Total revenue	460,007	513,748
Expenses:		
Net losses and loss adjustment expenses	229,948	19,584
Net acquisition expenses	49,032	65,841
Net change in fair value of derivatives	9,588	9,741
Operating expenses	25,171	26,936
Net foreign currency exchange losses	1,163	652
Total expenses	314,902	122,754
Net income	\$ 145,105	\$ 390,994
Comprehensive income:		
Net income	\$ 145,105	\$ 390,994
Other comprehensive income:		
Net change in unrealized holding gains and losses on available-for-sale securities	70,941	153,941
Less reclassification adjustments:		
Net realized gains on investments on available-for-sale securities	(58,372)	(41,991)
Net impairment loss on investments	23,835	11,365
Cumulative effect of accounting change	-	(12,650)
Other	8	5
Total other comprehensive income	36,412	110,670
Comprehensive income	\$ 181,517	\$ 501,664

See accompanying notes to consolidated financial statements.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	<u>Common shares</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive loss</u>	<u>Retained earnings</u>	<u>Total shareholder's equity</u>
Balances at December 31, 2008	\$ 1,250	\$ 1,019,500	\$ (160,038)	\$ 469,981	\$ 1,330,693
Effect of accounting change	–	–	(12,650)	12,650	–
Net income	–	–	–	390,994	390,994
Non-credit component of impairment losses on available-for-sale securities	–	–	(11,725)	–	(11,725)
Net change in unrealized gains and losses on available-for-sale securities	–	–	122,390	–	122,390
Other	–	–	5	–	5
Dividends paid	–	–	–	(255,000)	(255,000)
Balances at December 31, 2009	\$ 1,250	\$ 1,019,500	\$ (62,018)	\$ 618,625	\$ 1,577,357
Net income	–	–	–	145,105	145,105
Non-credit component of impairment losses on available-for-sale securities	–	–	3,520	–	3,520
Net change in unrealized gains and losses on available-for-sale securities	–	–	32,884	–	32,884
Other	1,750	(1,750)	8	–	8
Dividends paid	–	–	–	(385,000)	(385,000)
Balances at December 31, 2010	\$ 3,000	\$ 1,017,750	\$ (25,606)	\$ 378,730	\$ 1,373,874

See accompanying notes to consolidated financial statements.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	2010	2009
<b><u>Operating Activities:</u></b>		
Net income	\$ 145,105	\$ 390,994
Adjustments to reconcile net income to cash (used in) provided by operations:		
Depreciation and amortization	3,601	7,304
Net realized gains on investments	(56,814)	(60,078)
Net impairment losses on investments	23,835	11,365
Net foreign currency exchange losses	1,163	652
Fixed maturity trading securities activities, net	(47,356)	201,789
Changes in assets and liabilities:		
Decrease (increase) in accrued investment income	(1,877)	2,944
Decrease (increase) in reinsurance premiums receivable	(5,734)	10,795
Decrease in funds held by ceding companies	527	31,577
Decrease in deferred acquisition costs	55	6,853
Decrease in net unpaid losses and loss adjustment expenses	(74,811)	(286,840)
Decrease in net unearned premiums	(6,680)	(20,860)
Decrease in commissions payable	(11,901)	(2,631)
Changes in other assets and liabilities	(14,115)	(2,397)
Net cash (used in) provided by operating activities	(45,002)	291,467
<b><u>Investing Activities:</u></b>		
Proceeds from sale of fixed maturity available-for-sale securities	2,289,113	1,279,871
Proceeds from sale of preferred stocks	1,317	-
Proceeds from sale of fixed maturity trading securities	-	44,513
Proceeds from sale of short-term investments	-	234,599
Proceeds from maturity or paydown of fixed maturity available-for-sale securities	118,063	315,888
Proceeds from maturity of short-term investments	422,800	34,250
Acquisition of fixed maturity available-for-sale securities	(1,845,662)	(1,405,439)
Acquisition of fixed maturity trading securities	-	(65,012)
Acquisition of short-term investments	(492,961)	(214,469)
Net cash provided by investing activities	492,670	224,201
<b><u>Financing Activities:</u></b>		
Dividends paid to shareholder	(385,000)	(255,000)
Net cash used in financing activities	(385,000)	(255,000)
Effect of foreign currency exchange rate changes on cash	(338)	4,228
Net increase in cash and cash equivalents	62,330	264,896
Cash and cash equivalents at beginning of year	567,802	302,906
Cash and cash equivalents at end of year	\$ 630,132	\$ 567,802

See accompanying notes to consolidated financial statements.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(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. 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. We have not written any long-term business but may underwrite such business in the future.

Platinum Bermuda is licensed as a Class 4 insurer and a Long-Term insurer under the Insurance Act, 1978 of Bermuda. Platinum UK Services Company Limited (“PLUSCo”) is a wholly owned subsidiary based in the United Kingdom that provides catastrophe loss modeling services to Platinum Bermuda. The terms “we,” “us,” “our,” and the “Company” refer to the combined entities of Platinum Bermuda and PLUSCo, unless the context otherwise indicates. Platinum Underwriters Holdings, Ltd. (“Platinum Holdings”), our parent company, is a Bermuda domiciled holding company and is listed on the New York Stock Exchange. Platinum Holdings also has a reinsurance subsidiary in the U.S., Platinum Underwriters Reinsurance, Inc. (“Platinum US”).

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 PLUSCo. All material inter-company transactions and accounts have been eliminated in preparing these consolidated financial statements.

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from these estimates. The 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, unpaid losses and loss adjustment expenses (“LAE”), premiums written and earned, valuation of investments and income taxes. In addition, estimates are used to evaluate risk transfer for assumed and ceded reinsurance transactions. Results of changes in estimates are reflected in results of operations in the period in which the change is made.

Certain prior period amounts have been reclassified in the consolidated statement of cash flows to conform to the current period 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 related net unrealized gains or losses excluded from earnings and included in shareholders’ equity as a component of accumulated other comprehensive income (loss). 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 the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 825, “Financial Instruments” (“ASC 825”), are classified as trading securities. Trading securities are reported at fair value, with mark-to-market adjustments included in net realized gains and losses on investments. Short-term investments are generally carried at amortized cost, which approximates fair value, and mature within one year from the purchase date.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

The fair value of our fixed maturity securities, preferred stocks, and short-term investments are based on prices generally obtained from independent pricing vendors, index providers or broker-dealers.

Premiums and discounts on fixed maturity securities are amortized into net investment income over the life or estimated life of the security using the prospective effective yield method. Premiums and discounts on mortgage-backed and asset-backed securities that are amortized into net investment income also consider prepayment assumptions. These assumptions are consistent with the current interest rate and economic environment. The prospective adjustment method is used to adjust the value of mortgage-backed and asset-backed securities. Adjustments to the amortized cost of U.S. Treasury Inflation-Protected Securities resulting from changes in the consumer price index are recognized in net investment income. Realized gains and losses on the sale of securities are determined on the basis of the specific identification method.

We routinely review our available-for-sale investments to determine whether unrealized losses represent temporary changes in fair value or are the result of an other-than-temporary impairment (“OTTI”). The process of determining whether a security is other-than-temporarily impaired requires judgment and involves analyzing many factors. These factors include the overall financial condition of the issuer, the length of time and magnitude of an unrealized loss, specific credit events, the collateral structure and the credit support that may be applicable.

In 2009 we adopted additional guidance under FASB ASC 320, “Investments – Debt and Equity Securities” (“ASC 320”). In accordance with this additional guidance, we recognize the portion of OTTI related to a credit loss in net income and the portion of OTTI related to all other factors is recognized in other comprehensive income or loss. The amount of the credit loss of an impaired debt security is the difference between the amortized cost and the greater of (i) the present value of expected future cash flows and (ii) the fair value of the security. The effect of adoption resulted in a cumulative adjustment to debt securities that were impaired prior to 2009, of \$12,650 that was recorded in accumulated other comprehensive loss in the consolidated statement of shareholders’ equity.

In accordance with ASC 320, we also consider our intent to sell a security and the likelihood that we will be required to sell a security before an unrealized loss is recovered. Our intent to sell a security is based, in part, on adverse changes in the credit worthiness of a debt issuer, pricing and other market conditions and our anticipated net cash flows. If we determine that we intend to sell a security that is in an unrealized loss position, then the unrealized loss related to such a security, representing the difference between the security’s amortized cost and its fair value, is recognized as a net impairment loss in our consolidated statements of operations at the time we determine our intent is to sell.

#### *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 governments and agencies.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

*Premiums Written and Earned*

Assumed reinsurance premiums earned are recognized as revenues, net of any related ceded retrocessional coverage purchased. Both assumed and ceded premiums written are recognized as earned generally on a basis proportionate with the coverage period. Assumed premiums written not yet recognized as revenue are recorded on the consolidated balance sheets as unearned premiums; ceded premiums written not yet earned are recorded on the consolidated balance sheets as prepaid reinsurance premiums. Premiums receivable include premiums that have been reported and billed and are in the course of collection and an estimate of premiums not yet reported by our ceding companies. Unearned premiums and estimated premiums receivable are estimates based on estimated written premiums and are subject to judgment and uncertainty.

Due to the nature of reinsurance, ceding companies routinely report and remit premiums subsequent to the contract coverage period. Consequently, premiums written include amounts reported by the ceding companies, supplemented by our estimates of premiums that are written but not reported. In addition, we estimate the unearned portion of the premiums. Earned premiums, which are recorded in revenues, are the premiums written less the unearned premiums. The premium estimation process considers the terms and conditions of the reinsurance contracts and assumes that the contracts will remain in force until expiration. The estimation of written premiums could be affected by early cancellation, election of contract provisions for cut-off and return of unearned premiums or other contract disruptions. The time lag involved in the process of reporting premiums is shorter than the lag in reporting losses. Premiums are generally reported in full within two years from the inception of the contract. The potential net impact on the results of operations of changes in premiums earned is reduced by the accrual of losses and acquisition expenses related to such premiums earned. Any adjustments to written and 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. Any adjustments could be material and could significantly impact earnings in the period they are recorded.

Certain of our reinsurance contracts include provisions that adjust premiums based upon the loss experience of the contracts. We take these provisions into account when determining our estimate of premiums written and unearned premiums. 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 and are earned over the future coverage obtained for the remainder of the contract term. Any unearned premiums existing at the time a contract limit is exhausted or reinstated is earned immediately. Additional premiums are premiums that are triggered by losses and are earned immediately. Premiums written and unearned premiums include estimates of reinstatement premiums and additional premiums based on reinsurance contract provisions and loss experience and rely on the estimates of unpaid losses and LAE.

An allowance for uncollectible premiums is established for possible non-payment of premiums receivable, as deemed necessary. We analyze whether an allowance is deemed necessary based on our historical experience, the general profile of our ceding companies and our ability in most cases to contractually offset premiums receivable against losses and LAE and commission amounts payable to the same parties.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

*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 2010 and 2009 were \$36,781 and \$50,949, respectively.

*Unpaid Losses and Loss Adjustment Expenses*

Unpaid losses and LAE are estimated based upon information received from ceding companies regarding our liability for unpaid losses and LAE, adjusted for our estimates of losses and LAE 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. In addition, we estimate our unallocated loss adjustment expense reserves based on our administrative costs of managing claims.

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 adjustments are accounted for as changes in estimates and are 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.

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 Assets and Liabilities*

Reinsurance accounting is followed for assumed and ceded transactions when risk transfer requirements have been met. Risk transfer analysis involves evaluating significant assumptions relating to the amount and timing of expected cash flows, as well as the interpretation of underlying

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

contract terms. Reinsurance contracts that do not transfer sufficient insurance risk are accounted for as deposits and assets or liabilities are initially recorded for the same amount as assets paid or received. Interest income or 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 than our reporting currency are remeasured into U.S. dollars and the resulting foreign exchange gains and losses are included in net foreign currency exchange gains or losses. Foreign currency exchange gains and losses related to securities classified as trading securities are included in net foreign currency exchange gains and losses.

*Recently Issued Accounting Standards*

In October 2010, the FASB issued Accounting Standards Update (“ASU”) No. 2010-26, “Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts” (“ASU 2010-26”). ASU 2010-26 modifies the types of costs that may be deferred, allowing insurance companies to only defer costs directly related to a successful contract acquisition or renewal. These costs include incremental direct costs of successful contracts, the portion of employees’ salaries and benefits related to time spent on acquisition activities for successful contracts and other costs incurred in the acquisition of a contract. Additional disclosure of the type of acquisition costs capitalized is also required. ASU 2010-26 is effective on a prospective basis for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted as of the beginning of a company’s annual period. We are currently evaluating the impact of the adoption of ASU 2010-26 on our financial position and results of operations.

In July 2010, the FASB issued ASU No. 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses” (“ASU 2010-20”). ASU 2010-20 requires disclosure relating to the credit quality of an entity’s financing receivables and its allowance for credit losses. The guidance is effective for interim and annual periods ending on or after December 15, 2010. We adopted the guidance as of December 31, 2010 and it did not have a material impact on the presentation of our consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements” (“ASU 2010-06”). This update requires additional disclosures about fair value measurements, including disclosures regarding (i) the amounts and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements and separate presentation of purchases, sales, issuances and settlements of items measured using significant unobservable inputs, as previously disclosed for Level 3, (ii) inputs and valuation techniques used to measure fair value for financial assets and liabilities that fall in either Level 2 or Level 3, (iii) the activity within Level 3 fair value measurements, and (iv) disaggregation of financial assets and liabilities measured at fair value into classes of financial assets and liabilities. The requirements were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure about purchases, sales, issuances and settlements which is effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. We adopted the guidance as of January 1, 2010 and have reflected these additional disclosures in Note 3.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

In June 2009, the FASB issued additional guidance under ASC 810, “Consolidation” (“ASC 810”), which amends the consolidation guidance applicable to variable interest entities (“VIEs”). The amendments affected the overall consolidation analysis under ASC 810. In particular, the amendments modified the approach for determining the primary beneficiary of a VIE. We adopted the guidance as of January 1, 2010 and it did not have an effect on our financial position and results of operations.

**2. Investments**

*Available-for-sale Securities*

The following table presents our fixed maturity available-for-sale securities and preferred stocks as of December 31, 2010 and 2009:

	Amortized Cost	Gross Unrealized Gains	<u>Gross Unrealized Losses</u>		Fair Value
			Non-OTTI	Non-credit portion of OTTI	
<u>December 31, 2010:</u>					
U.S. Government	\$ 25,182	\$ –	\$ 1,484	\$ –	\$ 23,698
U.S. Government agencies	100,000	547	–	–	100,547
Corporate bonds	251,345	15,347	920	–	265,772
Commercial mortgage-backed securities	126,530	5,127	1,350	43	130,264
Residential mortgage-backed securities	147,717	2,283	10,878	11,499	127,623
Asset-backed securities	26,804	145	281	4,448	22,220
Municipal bonds	955,600	5,861	25,922	–	935,539
Non-U.S. governments	65,484	1,855	–	–	67,339
Total fixed maturity available-for-sale securities	<u>1,698,662</u>	<u>31,165</u>	<u>40,835</u>	<u>15,990</u>	<u>1,673,002</u>
Preferred stocks	–	–	–	–	–
Total available-for-sale securities	<u>\$ 1,698,662</u>	<u>\$ 31,165</u>	<u>\$ 40,835</u>	<u>\$ 15,990</u>	<u>\$ 1,673,002</u>

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
			Non-OTTI	Non-credit portion of OTTI	
<u>December 31, 2009:</u>					
U.S. Government	\$ 277,273	\$ –	\$ 1,185	\$ –	\$ 276,088
U.S. Government agencies	100,000	1,082	–	–	101,082
Corporate bonds	372,822	16,983	7,301	–	382,504
Commercial mortgage-backed securities	152,822	243	12,589	2,279	138,197
Residential mortgage-backed securities	582,256	1,916	29,938	15,201	539,033
Asset-backed securities	67,682	1,057	14,599	5,718	48,422
Municipal bonds	124,054	1,289	2,176	–	123,167
Non-U.S. governments	433,041	6,530	620	–	438,951
Total fixed maturity available-for-sale securities	2,109,950	29,100	68,408	23,198	2,047,444
Preferred stocks	534	442	–	–	976
Total available-for-sale securities	\$ 2,110,484	\$ 29,542	\$ 68,408	\$ 23,198	\$ 2,048,420

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

*Trading Securities*

The following table sets forth the fair value of our fixed maturity trading securities as of December 31, 2010 and 2009:

	December 31,	
	2010	2009
Non-U.S. dollar denominated securities:		
Non-U.S. governments	\$ 136,161	\$ 92,320
U.S. Government agencies	15,903	16,423
Corporate bonds	68	77
Insurance-linked securities	26,086	25,682
Total fixed maturity trading securities	\$ 178,218	\$ 134,502

We have elected to record our investments in insurance-linked securities at fair value. Insurance-linked securities have exposure to catastrophe loss, which we actively manage. We believe that the various risk elements of insurance-linked securities are more appropriately accounted for in accordance with the fair value measurement attributes of ASC 825. The mark-to-market adjustments on securities recognized under ASC 825 contributed \$203 and \$1,010 to net realized gains on investments for the years ended December 31, 2010 and 2009, respectively.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

At acquisition, we determine our trading intent in the near term for securities accounted for in accordance with ASC 825. If we do not intend to sell these securities in the near term, the purchases and sales are included in investing activities in our consolidated statements of cash flows, otherwise they are included in operating activities. For the year ended December 31, 2010, there were no purchases or sales of trading securities under ASC 825. For the year ended December 31, 2009, purchases of \$65,012 and sales of \$44,513 of securities were classified as investing activities and net sales of \$206,664 were classified as net fixed maturity trading securities activities and included in operating activities in the consolidated statements of cash flows.

*Other-Than-Temporary Impairments*

We consider the credit worthiness of our corporate bond portfolio by reviewing various performance metrics of the issuer, including financial condition and credit ratings as well as other public information. We determined that none of our corporate bonds were other-than-temporarily impaired in the years ended December 31, 2010 and 2009. As of December 31, 2010, the single largest unrealized loss within our corporate bond portfolio was \$532 related to a security with an amortized cost of \$10,144.

We analyze our commercial mortgage-backed securities (“CMBS”) on a periodic basis using default loss models based on the performance of the underlying loans. Performance metrics include delinquencies, defaults, foreclosures, debt-service-coverage ratios and cumulative losses incurred. The expected losses for a mortgage pool are compared to the current level of credit support, which generally represents the point at which our security would experience losses. We evaluate projected cash flows as well as other factors in order to determine if a credit impairment has occurred. We recorded net impairment losses related to CMBS of \$1,650 and \$2,757 for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, the single largest unrealized loss within our CMBS portfolio was \$539 related to a security with an amortized cost of \$10,029.

Our residential mortgage-backed securities (“RMBS”) include U.S. Government agency RMBS and non-agency RMBS. Our securities with underlying sub-prime mortgages as collateral are included in asset-backed securities (“ABS”). We analyze our non-agency RMBS and sub-prime ABS on a periodic basis using default loss models based on the performance of the underlying loans. Performance metrics include delinquencies, defaults, foreclosures, prepayment speeds and cumulative losses incurred. The expected losses for a mortgage pool are compared to the current level of credit support, which generally represents the point at which our security would experience losses. We evaluate projected cash flows as well as other factors in order to determine if a credit impairment has occurred. We recorded net impairment losses related to non-agency RMBS of \$9,750 and \$5,268 for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, the single largest unrealized loss within our RMBS portfolio was \$3,220 related to a non-agency RMBS security with an amortized cost of \$3,716.

We also recorded net impairment losses related to sub-prime ABS of \$12,435 and \$3,013 for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, the single largest unrealized loss within our sub-prime ABS portfolio was \$3,235 related to a security with an amortized cost of \$6,800.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

The net impairment losses for CMBS, non-agency RMBS and sub-prime ABS recorded in 2010 and 2009 reflect the portion of OTTI attributed to the credit losses for the impaired securities. The effect of the adoption of additional guidance under ASC 320 in 2009 resulted in adjustments to increase the amortized cost and net unrealized losses by \$11,824 for non-agency RMBS and \$826 for sub-prime ABS that were recorded in accumulated other comprehensive loss in the consolidated statement of shareholders' equity.

The following table sets forth a summary of the cumulative credit losses recognized on our fixed maturity available-for-sale securities for the years ended December 31, 2010 and 2009:

	2010	2009
Beginning balance, January 1	\$ 13,188	\$ –
Cumulative effect of accounting change	–	2,150
Credit losses on securities not previously impaired	11,721	7,438
Additional credit losses on securities previously impaired	12,114	3,600
Reduction for paydowns and securities sold	(772)	–
Reduction for increases in cash flows expected to be collected	(330)	–
Ending balance, December 31	\$ 35,921	\$ 13,188

As of December 31, 2010, the total cumulative credit losses related to CMBS, non-agency RMBS and sub-prime ABS. The cumulative credit losses we recorded on CMBS of \$4,303 were on three securities issued in 2006 and 2007. As of December 31, 2010, 7.6% of the mortgage pools backing these securities were 90 days or more past due and 0.6% of the mortgage pools had incurred cumulative losses. For these securities, the expected losses for the underlying mortgage pools were greater than the remaining credit support of 4.8%. The cumulative credit losses we recorded on non-agency RMBS and sub-prime ABS of \$31,618 were on 24 securities issued from 2005 to 2007. As of December 31, 2010, 18.4% of the mortgage pools backing these securities were 90 days or more past due and 4.8% of the mortgage pools had incurred cumulative losses. For these securities, the expected losses for the underlying mortgage pools were greater than the remaining credit support of 9.9%.

As of December 31, 2010, we no longer held any preferred stocks. For preferred stocks we previously held, we evaluated the unrealized losses of our preferred stocks by individual issuer and determined if we could forecast a reasonable period of time by which the fair value of the securities would increase and we would recover our cost. If we were unable to forecast a reasonable period of time in which to recover the cost of our preferred stocks, we recorded a net impairment loss in our consolidated statement of operations equivalent to the entire unrealized loss. We recorded no net impairment losses related to our preferred stocks for the year ended December 31, 2010. We recorded net impairment losses related to our preferred stocks of \$327 for the year ended December 31, 2009.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

*Unrealized Gains and Losses*

The following table sets forth our gross unrealized losses on fixed maturity 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, 2010 and 2009:

	December 31, 2010		December 31, 2009	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<u>Less than twelve months:</u>				
U.S. Government	\$ 23,698	\$ 1,484	\$ 276,088	\$ 1,185
Corporate bonds	27,922	920	5,081	77
Commercial mortgage-backed securities	–	–	13,233	96
Residential mortgage-backed securities	8,236	326	413,250	8,278
Asset-backed securities	–	–	1,075	445
Municipal bonds	616,300	25,922	61,716	2,176
Non-U.S. governments	–	–	59,815	565
Total	\$ 676,156	\$ 28,652	\$ 830,258	\$ 12,822
<u>Twelve months or more:</u>				
U.S. Government	\$ –	\$ –	\$ –	\$ –
Corporate bonds	–	–	51,720	7,224
Commercial mortgage-backed securities	22,016	1,394	98,211	14,772
Residential mortgage-backed securities	52,725	22,051	90,184	36,861
Asset-backed securities	20,838	4,728	22,840	19,872
Municipal bonds	–	–	–	–
Non-U.S. governments	–	–	1,660	55
Total	\$ 95,579	\$ 28,173	\$ 264,615	\$ 78,784
<u>Total unrealized losses:</u>				
U.S. Government	\$ 23,698	\$ 1,484	\$ 276,088	\$ 1,185
Corporate bonds	27,922	920	56,801	7,301
Commercial mortgage-backed securities	22,016	1,394	111,444	14,868
Residential mortgage-backed securities	60,961	22,377	503,434	45,139
Asset-backed securities	20,838	4,728	23,915	20,317
Municipal bonds	616,300	25,922	61,716	2,176
Non-U.S. governments	–	–	61,475	620
Total	\$ 771,735	\$ 56,825	\$ 1,094,873	\$ 91,606

The fair values of fixed maturity available-for-sale securities included in the table above relate only to securities in an unrealized loss position as of the reporting date.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

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

*Net Investment Income*

The following table sets forth our net investment income for the years ended December 31, 2010 and 2009:

	2010	2009
Fixed maturity securities	\$ 84,796	\$ 113,390
Short-term investments and cash and cash equivalents		
	1,476	1,140
Funds held by ceding companies	1,808	3,230
Subtotal	88,080	117,760
Less investment expenses	2,918	3,138
Net investment income	\$ 85,162	\$ 114,622

*Net Realized Gains and Losses on Investments*

The following table sets forth our net realized investment gains and losses on investments for the years ended December 31, 2010 and 2009:

	2010	2009
Gross realized gains on the sale of investments	\$ 63,731	\$ 66,096
Gross realized losses on the sale of investments	(8,604)	(4,093)
Net gains on the sale of investments	55,127	62,003
Mark-to-market adjustments on fixed maturity trading securities	1,687	(1,925)
Net realized gains on investments	\$ 56,814	\$ 60,078

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

*Maturities*

Actual maturities of our fixed maturity available-for-sale and trading securities could differ from stated maturities due to call or prepayment provisions. The following table sets forth the amortized cost and fair value of our fixed maturity available-for-sale and trading securities by stated maturity as of December 31, 2010:

	Amortized Cost	Fair Value
Due in one year or less	\$ 66,141	\$ 66,919
Due from one to five years	526,727	545,693
Due from five to ten years	253,479	253,188
Due in ten or more years	722,147	705,313
Mortgage-backed and asset-backed securities	301,051	280,107
Total	\$ 1,869,545	\$ 1,851,220

*Restricted Investments*

Certain of our investments are restricted to support our reinsurance operations. Investments with a carrying value of \$320,187 and cash and cash equivalents of \$369,717 as of December 31, 2010 were held in trust to collateralize obligations under various reinsurance contracts. We also issue letters of credit under a credit facility, see Note 7 for a description of our assets held in trust to secure those letters of credit.

**3. Fair Value Measurements**

The fair values of our financial assets and liabilities 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 of financial assets and liabilities are based on prices obtained from independent pricing vendors, index providers, or broker-dealers using observable inputs; and

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

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

The following table presents the fair value measurement levels for all financial assets and liabilities which the Company has recorded at fair value as of December 31, 2010 and December 31, 2009:

	Total	Fair Value Measurement Using:		
		Level 1	Level 2	Level 3
<u>December 31, 2010</u>				
<u>Financial assets:</u>				
U.S. Government	\$ 23,698	\$ 23,698	\$ –	\$ –
U.S. Government agencies	116,450	–	116,450	–
Corporate	265,840	–	265,840	–
Commercial mortgage-backed securities	130,264	–	130,264	–
Residential mortgage-backed securities	127,623	–	125,174	2,449
Asset-backed securities	22,220	–	21,563	657
Municipal bonds	935,539	–	935,539	–
Non-U.S. governments	203,500	53,998	149,502	–
Insurance-linked securities	26,086	–	26,086	–
Short-term investments	72,587	–	72,587	–
Total	<u>\$ 1,923,807</u>	<u>\$ 77,696</u>	<u>\$ 1,843,005</u>	<u>\$ 3,106</u>
<u>Financial liabilities:</u>				
Derivative instruments	4,871	–	–	4,871
Total	<u>\$ 4,871</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 4,871</u>
	Total	Fair Value Measurement Using:		
		Level 1	Level 2	Level 3
<u>December 31, 2009</u>				
<u>Financial assets:</u>				
U.S. Government	\$ 276,088	\$ 276,088	\$ –	\$ –
U.S. Government agencies	117,505	–	117,505	–
Corporate	382,581	20,669	361,912	–
Commercial mortgage-backed securities	138,197	–	138,197	–
Residential mortgage-backed securities	539,033	–	539,033	–
Asset-backed securities	48,422	–	48,422	–
Municipal bonds	123,167	–	123,167	–
Non-U.S. governments	531,271	27,932	503,339	–
Insurance-linked securities	25,682	–	25,682	–
Preferred stocks	976	976	–	–
Short-term investments	250	–	250	–
Total	<u>\$ 2,183,172</u>	<u>\$ 325,665</u>	<u>\$ 1,857,507</u>	<u>\$ –</u>
<u>Financial liabilities:</u>				
Derivative instruments	4,677	–	–	4,677
Total	<u>\$ 4,677</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 4,677</u>

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Our financial assets and liabilities recorded at fair value include fixed maturity securities, preferred stocks, short-term investments and a derivative instrument. The fair values of our fixed maturity securities, preferred stocks and short-term investments are generally based on prices obtained from independent pricing vendors, index providers, or broker-dealers using observable inputs. Fixed maturity securities are generally valued using the market approach. The inputs used to determine the fair value of our financial assets and liabilities are as follows:

U.S. Government	The fair values of U.S. Government securities were based on quoted prices in active markets for identical assets. The fair value measurements were classified as Level 1.
U.S Government agencies	Our U.S. Government agencies portfolio consisted of securities issued by financial institutions guaranteed by the Federal Deposit Insurance Corporation. The observable inputs used to price these securities may include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. The fair value measurements were classified as Level 2.
Corporate bonds	Our corporate bond portfolio was comprised of corporate issues and redeemable preferred stocks. The observable inputs used to price corporate issues may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark securities, bids, credit risks and industry and economic indicators. The fair value measurements were classified as Level 2. Exchange traded redeemable preferred stocks are priced based on quoted prices in active markets for identical assets. The fair value measurements were classified as Level 1.
Commercial mortgage-backed securities	The fair values of CMBS were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, security cash flows and structures, delinquencies, loss severities and default rates. The fair value measurements were classified as Level 2.
Residential mortgage-backed securities	Our RMBS portfolio was comprised of securities issued by U.S. Government agencies and by non-agency institutions. The observable inputs used to price U.S. Government agency RMBS may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, loan level information and prepayment speeds. The observable inputs used to price non-agency RMBS may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, security cash flows and structures, prepayment speeds, delinquencies, loss severities and default rates. The fair value measurements were classified as Level 2 or Level 3.
Asset-backed securities	The fair values of ABS were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, security cash flows and structures, type of collateral, prepayment speeds, delinquencies, loss severities and default rates. The fair value measurements were classified as Level 2 or Level 3.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Municipal bonds	The fair values of municipal bonds were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark securities, bids, credit risks and economic indicators. The fair value measurements were classified as Level 2.
Non-U.S. governments	Our non-U.S. government bond portfolio consisted of securities issued primarily by governments, provinces, agencies and supnationals as well as debt issued by financial institutions that is guaranteed by a non-U.S. government. The fair values of non-U.S. government securities were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. The fair value measurements were classified as Level 1 or Level 2.
Insurance-linked securities	The fair values of insurance-linked securities 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 specific catastrophic events. The fair value measurements were classified as Level 2.
Preferred stocks	Non-redeemable exchange traded preferred stocks were priced based on quoted prices in active markets for identical assets. The fair value measurements were classified as Level 1.
Short-term investments	Short-term investments were generally carried at amortized cost, which approximates fair value and were classified as Level 2.
Derivative instrument	The fair value of our derivative instrument was determined by management primarily using unobservable inputs through the application of our own assumptions and internal valuation pricing models. Unobservable inputs used in the internal valuation pricing model included the unpaid contract premiums, probability of losses triggered under the covered perils for first and second events, the remaining time to the end of the annual contract period and the seasonality of risks. The valuation was based on the use of significant unobservable inputs therefore the fair value measurement was classified as Level 3. See Note 4 for additional disclosure on our derivative instrument.

The following table reconciles the beginning and ending balance for our Level 3 financial instruments measured at fair value using significant unobservable inputs for the years December 31, 2010 and 2009:

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	December 31,	
	2010	2009
Beginning balance at January 1	\$ (4,677)	\$ (4,753)
Purchases	—	—
Issuances	—	—
Settlements	9,394	9,817
Sales, maturities and paydowns	—	—
Total net realized gains included in earnings	—	—
Total decrease in fair value of the derivative instrument included in earnings	(9,588)	(9,741)
Total net unrealized gains (losses) included in comprehensive income	—	—
Transfers into Level 3	3,106	—
Ending balance at December 31	\$ (1,765)	\$ (4,677)
Total decrease in fair value of the financial instruments included in earnings relating to liabilities outstanding for the period	\$ 9,588	\$ 9,741

We transferred \$2,449 of non-agency RMBS and \$657 of sub-prime ABS from Level 2 to Level 3 on December 31, 2010. The transfers were due to insufficient evidence available to determine if certain fair values obtained from broker-dealers were measured using observable inputs. There were no transfers between Levels 2 and 3 during the year ended December 31, 2009 and no transfers between Levels 1 and 2 during the years ended December 31, 2010 and 2009.

The carrying amounts of our financial assets and liabilities were equal to fair values as at December 31, 2010 and 2009.

**4. Derivative Instruments**

In August 2008, we entered into a derivative agreement with Topiary Capital Limited (“Topiary”), a Cayman Islands special purpose vehicle, that 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 three annual periods commencing August 1, 2008. 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. Any recovery we make under this contract is based on insured property industry loss estimates for the U.S. perils and European wind and a parametric index for Japanese earthquake events. Recovery is based on both a physical and financial variable and is not based on actual losses we may incur. Consequently, the transaction is accounted for as a derivative and is carried at the estimated fair value.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Under the terms of the agreement, we pay Topiary approximately \$9,667 during each of the three annual periods. The net derivative liability of \$4,871 was included in other liabilities on our consolidated balance sheet as at December 31, 2010. The net change in fair value of \$9,588 and \$9,741 was included in the change in fair value of derivatives in our consolidated statement of operations for the years ended December 31, 2010 and 2009, respectively.

Topiary's limit of loss is collateralized with high quality investment grade securities in an account to secure obligations to the Company. 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.

Topiary is a variable interest entity under the provisions of ASC 810. We have concluded that we are not the primary beneficiary of Topiary and, accordingly, we have not consolidated this entity in our consolidated financial statements.

**5. Unpaid Losses and LAE**

The following table sets forth the changes in our liability for unpaid losses and LAE for the years ended December 31, 2010 and 2009:

	2010	2009
Net unpaid losses and LAE as of January 1,	\$ 1,357,130	\$ 1,633,216
Net incurred losses and LAE related to:		
Current year	315,876	147,102
Prior years	(85,928)	(127,518)
Net incurred losses and LAE	229,948	19,584
Net paid losses and LAE:		
Current year	44,903	18,115
Prior years	259,896	288,352
Net paid losses and LAE	304,799	306,467
Net effects of foreign currency exchange rate changes	952	10,797
Net unpaid losses and LAE as of December 31,	1,283,231	1,357,130
Reinsurance recoverable on unpaid losses and LAE	585	839
Gross unpaid losses and LAE as of December 31,	\$ 1,283,816	\$ 1,357,969

The following table sets forth the components of net incurred losses and LAE related to prior years for the years ended December 31, 2010 and 2009:

	2010	2009
Net favorable loss development	\$ (90,353)	\$ (121,712)
Effect of changes in premium estimates	7,538	(5,806)
Change in unallocated loss adjustment expense reserves	(3,113)	-
Net incurred losses and LAE – prior years	\$ (85,928)	\$ (127,518)

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Net favorable loss development was primarily the result of favorable adjustments in ultimate loss ratios. Prior years' incurred losses and LAE included losses associated with changes in premium estimates and the patterns of their earnings. The effect on net income of changes in premium estimates, after considering corresponding changes in related losses, LAE and acquisition expenses, was not significant. During the year ended December 31, 2010, we completed a review of our administrative expenses of managing claims that resulted in a \$3,113 reduction of unallocated loss adjustment expense reserves.

The net favorable loss development for the year ended December 31, 2010 emerged primarily from Casualty segment and was related to non-catastrophe losses. The Casualty segment had \$83,668 of net favorable loss development, of which \$70,323 was attributable to the long-tailed casualty classes in the 2006 and prior underwriting years. The majority of the long-tailed casualty net favorable loss development was attributable to the claims made, casualty occurrence excess-of-loss, clash and umbrella classes, partially offset by net unfavorable loss development in the international casualty class in the 2008 underwriting year. The Property and Marine segment had \$3,075 of net unfavorable loss development, including \$13,596 of net favorable loss development related to non-catastrophe events and net unfavorable loss development of \$16,671 related to major catastrophe events, primarily Hurricane Ike. The Finite Risk segment experienced net favorable loss development of \$9,760, which was substantially offset by adjustments relating to profit commissions on these contracts.

The net favorable loss development for the year ended December 31, 2009 emerged primarily from the Property and Marine and Casualty segments. The Property and Marine segment had \$25,153 of net favorable loss development, including \$16,897 of net favorable development related to non-catastrophe events in prior years and \$8,256 of net favorable loss development related to major catastrophes. The Casualty segment had \$77,576 of net favorable loss development, of which \$67,997 was attributable to the long-tailed casualty classes. The majority of the long-tailed casualty net favorable loss development was attributable to the umbrella, claims made and casualty excess-of-loss occurrence classes. The Finite Risk segment experienced net favorable loss development of \$18,983 which was substantially all offset by adjustments to commissions.

The net favorable loss development for the years ended December 31, 2010 and 2009 was primarily attributable to a level of cumulative losses reported by our ceding companies that was lower than expected, and that, in our judgment, resulted in sufficient credibility in the loss experience to change our previously selected loss ratios and reduce estimated ultimate losses.

We do not believe that the net favorable loss development in 2010 and 2009 is indicative of prospective net loss development of unpaid losses and LAE as of December 31, 2010 because conditions and trends that affected the net favorable loss 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

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

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 evaluated 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 an insurance company to a reinsurer for consideration of premium. Retrocessional reinsurance is reinsurance ceded by a reinsurer to another reinsurer, referred to as a retrocessionaire, to reinsure 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 agreements do not relieve us from our obligations to the insurers and reinsurers from whom we assume business. The failure of retrocessionaires to honor their obligations would result in losses to us. Consequently, we consider the financial strength of retrocessionaires when determining whether to purchase retrocessional coverage from them. We generally obtain retrocessional coverage from companies rated "A-" or better by A.M. Best unless the retrocessionaire's obligations are collateralized. We routinely monitor the financial performance and rating status of all material retrocessionaires.

During 2010 and 2009, we entered into various industry loss warranty agreements with third party retrocessionaires. These reinsurance contracts provided retrocessional coverage for catastrophic events in North America, Europe and Japan.

The following table sets forth the effects of retrocessional reinsurance on premiums, losses and LAE for the years ended December 31, 2010 and 2009:

	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
<u>As of and for the year ended December 31, 2010:</u>			
Premiums written	\$ 352,647	\$ 17,217	\$ 335,430
Premiums earned	359,827	17,717	342,110
Losses and LAE	229,838	(110)	229,948
Unpaid losses and LAE	1,283,816	585	1,283,231
<u>As of and for the year ended December 31, 2009:</u>			
Premiums written	336,974	10,048	326,926
Premiums earned	358,360	10,574	347,786
Losses and LAE	19,918	334	19,584
Unpaid losses and LAE	\$ 1,357,969	\$ 839	\$ 1,357,130

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

**7. Credit Facility**

At December 31, 2010, Platinum Bermuda, Platinum Holdings, and certain other related parties had a \$400,000 facility (the "Credit Facility") that consisted 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 unsecured line of credit generally is available for our working capital, liquidity and general corporate requirements and those of certain other related parties. Platinum Holdings and Platinum Underwriters Finance, Inc., a wholly owned subsidiary of Platinum Holdings, guarantee the 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 37.5 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 37.5 basis points. The interest rate based on LIBOR would increase by up to 25.0 basis points should our senior unsecured debt credit rating decrease. The Credit Facility requires compliance with various covenants, including several financial covenants. As of December 31, 2010, Platinum Holdings and its subsidiaries were in compliance with all covenants under the Credit Facility. The Credit Facility expires on September 13, 2011. While we intend to enter into a new credit facility in 2011, we do not know what the terms of the new facility will be or if the terms will be the same as or similar to the current terms.

Platinum Bermuda had \$92,617 of letters of credit outstanding in favor of various cedants as of December 31, 2010. Cash and cash equivalents of \$100,301 were held in trust to collateralize secured letters of credit issued under the Credit Facility. As of December 31, 2010, \$150,000 was available for borrowing on an unsecured basis and \$116,301 was available for letters of credit on a secured basis under the Credit Facility.

**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 has 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.

**9. Statutory Regulations**

Platinum Bermuda must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of the Insurance Act, 1978 of Bermuda.

As a Class 4 insurer and long-term insurer, Platinum Bermuda is required (1) with respect to its general business, to maintain a minimum solvency margin equal to the greater of (A) \$100 million, (B) 50% of net premiums written (being gross premiums written less any premiums ceded by Platinum Bermuda but Platinum Bermuda may not deduct more than 25% of gross premiums when computing net premiums written), and (C) 15% of net discounted aggregate losses and loss expense provisions and other insurance reserves; and (2) with respect to its long-term business, to maintain a minimum solvency margin of \$250,000.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Each year Platinum Bermuda is required to file with the Authority a capital and solvency return within four months of its relevant financial year end (unless specifically extended). The prescribed form of capital and solvency return 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.

As a Class 4 insurer and long-term insurer, Platinum Bermuda is required to maintain available statutory capital and surplus in an amount that is equal to or exceeds the target capital levels based on enhanced capital requirements ("ECR") calculated using the BSCR model. The Authority has provided for the use of pre-approved internally developed company models in lieu of the standardized BSCR. The BSCR model is a risk-based capital model introduced by the Authority that measures risk and determines ECR and a target capital level (defined as 120% of the ECR) based on Platinum Bermuda's statutory financial statements. In circumstances where the Authority concludes that the company's risk profile deviates significantly from the assumptions underlying the ECR or the company's assessment of its management policies and practices, it may issue an order requiring that the company adjust its ECR.

The BSCR increases the capital requirements of Platinum Bermuda and adds an additional constraint on the amount of dividends that Platinum Bermuda is able to pay without regulatory approval.

During the years ended and as of December 31, 2010 and 2009, Platinum Bermuda met the target capital level required under the BSCR.

The Insurance Act mandates certain actions and filings with the Authority if Platinum Bermuda fails to meet and maintain its ECR or solvency margin, including the filing of a written report detailing the circumstances giving rise to the failure and the manner and time within which the insurer intends to rectify the failure. Platinum Bermuda is prohibited from declaring or paying a dividend if it is in breach of its ECR, solvency margin or minimum liquidity ratio or if the declaration or payment of such dividend would cause such breach. Where Platinum Bermuda fails to meet its solvency margin or minimum liquidity ratio on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the Authority. Further, Platinum Bermuda, as a Class 4 insurer, is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial 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 or 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 statutory 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.

All Bermuda companies must comply with the provisions of the Companies Act 1981 regulating the payment of dividends and making distributions from contributed surplus. A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

The Insurance Act provides a minimum liquidity ratio for general business insurers. An insurer engaged in general business is required 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).

As an insurer carrying on long-term business 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 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 \$250,000 minimum solvency margin prescribed by the Insurance Act. We have not written any long-term business but may underwrite such business in the future.

The following table sets forth the statutory capital and surplus at December 31, 2010 and 2009, as determined using statutory accounting principles:

	2010	2009
Total U.S. GAAP shareholder's equity	\$ 1,373,874	\$ 1,577,357
Less: non-admitted assets		
Deferred acquisition costs	6,513	6,561
Other miscellaneous assets	947	950
Statutory capital and surplus	1,366,414	1,569,846
Statutory capital and surplus consists of:		
Class 4 statutory capital and surplus	1,366,164	1,569,596
Long-Term statutory capital and surplus	250	250
Total statutory basis capital and surplus	\$ 1,366,414	\$ 1,569,846

At December 31, 2010 and 2009 we were required to maintain relevant assets of approximately \$1,018,796 and \$1,096,131, respectively. At those dates relevant assets were approximately \$2,723,847 and \$3,035,267, respectively, satisfying the minimum liquidity ratio tests.

**10. Related Party Transactions and Agreements**

*Related party reinsurance 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 through 2010.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Beginning on August 5, 2008, Platinum Bermuda provided retrocessional coverage to Platinum US for \$50.0 million per occurrence in excess of \$30.0 million with respect to catastrophe losses. This agreement was renewed in 2009 with Platinum Bermuda providing \$45.0 million in excess of \$20.0 million. This agreement was not renewed in 2010.

In 2003, Platinum Re (UK) Limited (“Platinum UK”), a reinsurance subsidiary of Platinum Holdings, entered into a 55% quota share retrocession agreement with Platinum Bermuda on a risks-attaching basis, with various amendments made from time to time. As of January 1, 2007 a 100% loss portfolio transfer was entered into between Platinum Bermuda and Platinum UK that replaced the previous quota share retrocession agreement. During 2009, and following in 2007 a filing of a Scheme of Operations with the U.K. Financial Services Authority, Platinum UK completed a novation (or termination by other means) of all of its contracts to Platinum Bermuda. Also during 2009, the U.K. Financial Services Authority granted Platinum UK’s application to withdraw its insurance company license.

Included in the 2009 related party reinsurance transactions below are net premiums earned of \$305, favorable net incurred losses and loss adjustment expenses of \$8,636 and favorable net acquisition expenses of \$167 related to Platinum UK.

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

	2010	2009
Reinsurance premiums receivable	\$ 12,703	\$ 9,856
Funds held by ceding companies	576	1,472
Deferred acquisition costs	12	421
Unpaid losses and loss adjustment expenses	687,232	904,054
Unearned premiums	109	3,592
Commissions payable	(1,556)	(351)
Other liabilities	5,378	9,416
Net premiums earned	16,621	37,737
Net incurred losses and loss adjustment expenses	(76,633)	(50,137)
Net acquisition expenses	\$ 249	\$ 6,320

*Share incentive plan*

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 2010 Share Incentive Plan provides for the granting of up to an aggregate of 3,572,977 common shares to employees and directors at a fair market value per share or exercise price equal to the closing price of our common shares on the trading day immediately preceding the date of the grant. Share Incentive Plan awards are granted periodically. Option awards vest pro rata over a four year period. Restricted share unit awards granted in 2008 and prior years generally vest in equal installments on the third and fourth anniversaries of the grant date and share unit awards granted subsequent to 2008 vest pro rata over a four year period. The common shares issuable under the 2010 Share Incentive Plan will be made available from authorized but unissued common shares. Option awards generally expire ten years from the date of grant.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

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 the awards granted in accordance with U.S. GAAP. The total compensation expense incurred by Platinum Bermuda under this agreement during the years ended December 31, 2010 and 2009 was \$2,637 and \$2,414, respectively. Amounts due to Platinum Holdings as of December 31, 2010 and 2009 related to the share incentive plan are \$729 and \$683, respectively.

*Other related party transactions*

Other net amounts due to Platinum Holdings as of December 31, 2010 and 2009 are \$280 and \$168, respectively. Platinum Administrative Services, Inc. ("PASI") provides administrative support services to Platinum Bermuda and other related parties. Net amounts due by the Company to PASI as of December 31, 2010 and 2009 are \$849 and \$1,187, respectively.

**11. Commitments and Contingencies**

*Lease Commitments*

The following table presents out future minimum annual lease commitments under various non-cancelable operating leases for our office facilities:

Years Ending December 31,		
2011	\$	532
Thereafter		-
Total	\$	<u>532</u>

Rent expense of Platinum Bermuda and PLUSCo was \$579 for the year ended December 31, 2010. In 2009, Platinum Bermuda subleased office space to Platinum Holdings. This sublease expired on December 31, 2009 and was not renewed. Rent expense of Platinum Bermuda and PLUSCo, net of sublet to Platinum Holdings, was \$659 for the year ended December 31, 2009

*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 or arbitration other than in the ordinary course of our reinsurance business.

**12. Subsequent Events**

In January 2011 Platinum Bermuda declared and paid dividends to Platinum Holdings of \$180,000.

In March 2011 Platinum Bermuda received a capital contribution from Platinum Holdings of \$120,000.

PLATINUM UNDERWRITERS BERMUDA, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Subsequent to December 31, 2010 and up to March 23, 2011 a number of natural catastrophe events occurred which Platinum Bermuda expects will be reflected in the consolidated financial statements for the year ended December 31, 2011.

- a. Flooding occurred in large areas of Australia during January 2011 and Cyclone Yasi made landfall in Northern Queensland, Australia on February 2, 2011, for which management currently expects a net loss impact of \$25,000 for the Company.
- b. An earthquake occurred on February 22, 2011 in New Zealand, for which management currently expects a net loss impact of \$135,000 for the Company.
- c. An earthquake occurred on March 11, 2011 in Japan for which information as of March 23, 2011 is not sufficient to arrive at a reasonable estimate of net loss.

The Company's assessment of its exposure to these events is ongoing.

The Company has evaluated subsequent events up to and including March 23, 2011, the date of issuance of the audited consolidated financial statements.