Maiden Holdings, Ltd.
Form 10-Q
November 09, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

¬	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to _________

Commission File No. 001-34042

MAIDEN HOLDINGS, LTD.
(Exact name of registrant as specified in its charter)

Bermuda (State or other jurisdiction of incorporation or organization)	98-0570192 (IRS Employer Identification No.)
131 Front Street, Hamilton, Bermuda (Address of principal executive offices)	HM12 (Zip Code)

(441) 298-4900
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¬

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

Large accelerated filer ¬	Accelerated filer x

Non-accelerated filer ¬ (Do not check if a smaller reporting company)	Smaller reporting company ¬

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

As of November 5, 2012, the number of the Registrant's Common Stock ($.01 par value) outstanding was 72,282,493.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
MAIDEN HOLDINGS, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars, except share and per share data)

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
Investments:		
Fixed maturities, available-for-sale, at fair value (Amortized cost 2012: $2,472,806; 2011: $1,957,106)	$2,610,012	$2,020,661
Other investments, at fair value (Cost 2012: $2,530; 2011: $1,955)	2,826	2,192
Total investments	2,612,838	2,022,853
Cash and cash equivalents	66,877	188,082
Restricted cash and cash equivalents	115,324	114,895
Accrued investment income	21,329	13,215
Reinsurance balances receivable, net (includes $210,913 and $178,745 from related parties in 2012 and 2011, respectively)	449,186	423,355
Funds withheld	41,927	42,605
Prepaid reinsurance premiums (includes $1,307 and $7,265 from related parties in 2012 and 2011, respectively)	43,621	35,381
Reinsurance recoverable on unpaid losses (includes $9,369 and $7,207 from related parties in 2012 and 2011, respectively)	29,110	20,289
Loan to related party	167,975	167,975
Deferred commission and other acquisition expenses (includes $179,411 and $147,743 from related parties in 2012 and 2011, respectively)	274,587	248,436
Goodwill and intangible assets, net	95,484	98,755
Other assets	30,857	19,270
Total assets	$3,949,115	$3,395,111
LIABILITIES		
Reserve for loss and loss adjustment expenses (includes $521,778 and $396,198 from related parties in 2012 and 2011, respectively)	$1,547,103	$1,398,438
Unearned premiums (includes $595,746 and $483,935 from related parties in 2012 and 2011, respectively)	976,689	832,047
Accrued expenses and other liabilities	63,318	161,883
Senior notes	207,500	107,500
Junior subordinated debt	126,303	126,263
Total liabilities	2,920,913	2,626,131
Commitments and Contingencies		
EQUITY		
Preference shares - Series A	150,000	—
Common shares ($0.01 par value; 73,244,825 and 73,183,764 shares issued in 2012 and 2011, respectively; 72,282,489 and 72,221,428 shares outstanding in 2012 and 2011, respectively)	732	732
Additional paid-in capital	575,293	579,004
Accumulated other comprehensive income	137,441	64,059
Retained earnings	168,141	128,648
Treasury shares, at cost (2012 and 2011: 962,336 shares)	(3,801)	(3,801)

Total Maiden shareholders’ equity	1,027,806	768,642
Noncontrolling interest in subsidiaries	396	338
Total equity	1,028,202	768,980
Total liabilities and equity	$3,949,115	$3,395,111

See accompanying notes to the unaudited condensed consolidated financial statements.

MAIDEN HOLDINGS, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands of U.S. dollars, except share and per share data)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Gross premiums written	$478,515	$451,130	$1,536,955	$1,384,302
Net premiums written	$455,847	$428,586	$1,458,640	$1,315,052
Change in unearned premiums	(6,874)	(8,309)	(134,055)	(180,457)
Net premiums earned	448,973	420,277	1,324,585	1,134,595
Other insurance revenue	2,622	4,530	9,650	11,364
Net investment income	21,550	18,749	60,072	57,708
Net realized and unrealized gains (losses) on investment	2,410	(2,900)	836	(2,262)
Total revenues	475,555	440,656	1,395,143	1,201,405
Expenses:				
Net loss and loss adjustment expenses	309,146	274,504	897,498	746,285
Commission and other acquisition expenses	120,923	126,777	367,844	339,673
General and administrative expenses	13,578	12,475	42,617	37,607
Interest and amortization expenses	9,569	8,178	26,815	26,588
Accelerated amortization of junior subordinated debt discount and issuance cost	—	—	—	20,313
Junior subordinated debt repurchase expense	—	—	—	15,050
Amortization of intangible assets	1,090	1,258	3,271	3,775
Foreign exchange (gains) losses	(1,213)	1,103	(1,318)	(898)
Total expenses	453,093	424,295	1,336,727	1,188,393
Income before income taxes	22,462	16,361	58,416	13,012
Income taxes:				
Current tax expense	397	203	880	1,299
Deferred tax expense	131	156	618	738
Income tax expense	528	359	1,498	2,037
Net income	21,934	16,002	56,918	10,975
Less: (income) loss attributable to noncontrolling interest	(15)	2	(81)	5
Net income attributable to Maiden common shareholders	$21,919	$16,004	$56,837	$10,980
Basic earnings per share attributable to Maiden common shareholders	$0.30	$0.22	$0.79	$0.15
Diluted earnings per share attributable to Maiden common shareholders	$0.30	$0.22	$0.78	$0.15
Dividends declared per common share	$0.08	$0.08	$0.24	$0.22

See accompanying notes to the unaudited condensed consolidated financial statements.

MAIDEN HOLDINGS, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of U.S. dollars)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Comprehensive income:				
Net income	$ 21,934	$ 16,002	$ 56,918	$ 10,975
Other comprehensive income				
Net unrealized holding gains on available-for-sale securities arising during the period	45,986	33	76,098	21,795
Adjustment for reclassification of net realized (gains) losses recognized in net income	(2,410)	65	(2,429)	(75)
Foreign currency translation adjustment	(1,700)	(3,206)	(292)	(1,291)
Other comprehensive income (loss)	41,876	(3,108)	73,377	20,429
Comprehensive income	63,810	12,894	130,295	31,404
Net (income) loss attributable to noncontrolling interest	(15)	2	(81)	5
Other comprehensive loss (income) attributable to noncontrolling interest	7	22	5	(1)
Comprehensive (income) loss attributable to noncontrolling interest	(8)	24	(76)	4
Comprehensive income attributable to Maiden common shareholders	$ 63,802	$ 12,918	$ 130,219	$ 31,408

See accompanying notes to the unaudited condensed consolidated financial statements.

MAIDEN HOLDINGS, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of U.S. dollars)
(Unaudited)

	For the Nine Months Ended September 30	
	2012	2011
Preference shares - Series A		
Beginning balance	$ —	$ —
Issuance of preference shares	150,000	—
Ending balance	$ 150,000	$ —
Common shares		
Beginning balance	732	731
Exercise of options and issuance of shares	—	1
Ending balance	$ 732	$ 732
Additional paid-in capital		
Beginning balance	579,004	577,135
Exercise of options and issuance of common shares	253	347
Issuance costs of preference shares	(4,959)	—
Partial disposal of interest in subsidiary	—	141
Share based compensation expense	995	1,011
Ending balance	$ 575,293	$ 578,634
Accumulated other comprehensive income		
Beginning balance	64,059	54,334
Change in net unrealized gains on investments	73,669	21,720
Foreign currency translation adjustment	(287)	(1,292)
Ending balance	$ 137,441	$ 74,762
Retained earnings		
Beginning balance	128,648	121,775
Net income attributable to Maiden common shareholders	56,837	10,980
Dividends on common shares	(17,344)	(15,873)
Ending balance	$ 168,141	$ 116,882
Treasury shares		
Beginning balance	(3,801)	(3,801)
Ending balance	$ (3,801)	$ (3,801)
Noncontrolling interest in subsidiaries		
Beginning balance	338	275
Partial disposal of interest in subsidiary	—	69
Dividend paid to noncontrolling interest	(18)	—
Net income (loss) attributable to noncontrolling interest	81	(5)
Foreign currency translation adjustment	(5)	1
Ending balance	$ 396	$ 340
Total equity	$ 1,028,202	$ 767,549

See accompanying notes to the unaudited condensed consolidated financial statements.

MAIDEN HOLDINGS, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)
(Unaudited)

	For the Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	$56,918	$10,975
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	4,755	6,828
Net realized and unrealized (gains) losses on investments	(836)	2,262
Foreign exchange gains	(1,318)	(898)
Amortization of share-based compensation expense, bond premium and discount and subordinated debt discount, net	6,493	20,248
Changes in assets – (increase) decrease:		
Reinsurance balances receivable, net	(26,003)	(170,546)
Funds withheld	883	16,402
Prepaid reinsurance premiums	(8,240)	(10,347)
Reinsurance recoverable on unpaid losses	(8,818)	(5,917)
Accrued investment income	(8,094)	2,749
Deferred commission and other acquisition expenses	(26,164)	(44,635)
Other assets	(9,551)	(9,650)
Changes in liabilities – increase (decrease):		
Reserve for loss and loss adjustment expenses	148,304	100,223
Unearned premiums	145,203	191,135
Accrued expenses and other liabilities	(5,385)	(3,719)
Net cash provided by operating activities	268,147	105,110
Cash flows from investing activities:		
Purchases of fixed-maturity securities – available-for-sale	(1,013,988)	(359,140)
Purchases of fixed-maturity securities – trading and short sale	(102,073)	(825,703)
Purchases of other investments	(794)	(1,026)
Proceeds from sales of fixed-maturity securities – available-for-sale	120,865	106,041
Proceeds from sales of fixed-maturity securities – trading and short sales	49,883	826,509
Proceeds from maturities and calls of fixed maturity securities	331,162	297,321
Proceeds from redemption of other investments	274	4,382
Increase in restricted cash and cash equivalents	(429)	(7,014)
Purchase of capital assets	(307)	(1,093)
Net cash (used in) provided by investing activities	(615,407)	40,277
Cash flows from financing activities:		
Senior notes issuance, net of issuance costs	96,594	104,689
Repurchase agreements, net	—	(76,225)
Repayment of junior subordinated debt	—	(107,500)
Preference shares - Series A issuance, net of issuance costs	145,041	—
Common share issuance	254	348
Dividends paid to common shareholders	(17,339)	(15,144)
Net cash provided by (used in) financing activities	224,550	(93,832)
Effect of exchange rate changes on foreign currency cash	1,505	(1,398)
Net (decrease) increase in cash and cash equivalents	(121,205)	50,157

Cash and cash equivalents, beginning of period	188,082	96,151
Cash and cash equivalents, end of period	$ 66,877	$ 146,308

See accompanying notes to the unaudited condensed consolidated financial statements.

MAIDEN HOLDINGS, LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of U.S. dollars, except share and per share data)
(Unaudited)

1. Basis of Presentation - Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements include the accounts of Maiden Holdings, Ltd. and its subsidiaries (the "Company" or "Maiden") and have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP" or "U.S. GAAP") for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. All significant inter-company transactions and accounts have been eliminated in the condensed consolidated financial statements.

These interim condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim period and all such adjustments are of a normal recurring nature. The results of operations for the interim period are not necessarily indicative, if annualized, of those to be expected for the full year. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

These unaudited condensed consolidated financial statements, including these notes, should be read in conjunction with the Company's audited consolidated financial statements, and related notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Certain reclassifications have been made for 2011 to conform to the 2012 presentation and have no impact on net income previously reported.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Standards Updates

Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board ("FASB") issued updated guidance, Accounting Standards Update ("ASU") 2011-05, to increase the prominence of items reported in other comprehensive income by eliminating the option of presenting components of comprehensive income as part of the statement of changes in shareholders' equity. The updated guidance requires that all non-owner changes in shareholders' equity be presented either as a single continuous statement of comprehensive income or in two separate but consecutive statements. Under this guidance, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated guidance is to be applied retrospectively and is effective January 1, 2012, except for the provision requiring entities to present components of reclassifications of other comprehensive income on the face of the income statement, which the FASB voted to defer indefinitely during the fourth quarter of 2011. Early adoption was permitted. The adoption of this guidance resulted in a change in the presentation of the Company's financial statements but did not have any impact on the Company's results of operations, financial position or liquidity.

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued ASU 2010-26, which modifies the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new or renewal insurance contracts. The amended guidance specifies that certain costs incurred in the successful acquisition of new and renewal insurance contracts should be capitalized. Those costs include incremental direct costs of contract acquisition that result directly from and are essential to the contract transaction and would not have been incurred had the contract transaction not occurred. All other acquisition-related costs, such as costs incurred for soliciting business, administration, and unsuccessful acquisition or renewal efforts should be charged to expense as incurred. Administrative costs, including rent, depreciation, occupancy, equipment, and all other general overhead costs are considered indirect costs and should also be charged to expense as incurred. ASU 2010-26 is effective for fiscal periods beginning on or after December 15, 2011 with prospective or retrospective application permitted. The Company applied the new provisions of ASU 2010-26 prospectively. As a result of adopting ASU 2010-26, commission and other acquisition expenses have increased by $478 and $2,455 and net income attributable to Maiden shareholders decreased by the same amounts for the three and nine months ended September 30, 2012, respectively. The impact of the change on basic and diluted earnings per share is a decrease of $0.01 and $0.03 for the three and nine months ended September 30, 2012, respectively. The application of the new provisions means that $2,614 of unamortized deferred acquisition expenses as of January 1, 2012, that had been deferred under prior guidance, have been determined to no longer be deferrable and will be recognized as an expense over the original amortization period. If the Company had followed ASU 2010-26 in 2011, commission and other acquisition expenses would have increased by $340 and $2,190 for the three and nine months ended September 30, 2011.

MAIDEN HOLDINGS, LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of U.S. dollars, except share and per share data)
(Unaudited)

2. Recent Accounting Pronouncements (continued)

Intangibles - Goodwill and Other: Testing Goodwill for Impairment

In September 2011, the FASB issued updated guidance on goodwill impairment that gives companies the option to perform a qualitative assessment that may allow them to skip the annual two-step test and reduce costs. Under the new guidance, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The FASB provided a sample list of events and circumstances that an entity can consider in performing its qualitative assessment. Under the amended guidance, an entity has the option to bypass the qualitative assessment and proceed directly to performing the first step of the two-step goodwill impairment test and may resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption was permitted. The annual impairment test is done during the fourth quarter and the adoption of this guidance is not expected to have any effect on the Company's results of operations, financial position or liquidity.

Recently Issued Accounting Standards Updates Not Yet Adopted

Qualitative Impairment Test For Indefinite-Lived Intangibles

On July 27, 2012, the FASB issued final guidance adding an optional qualitative assessment for determining whether an indefinite-lived intangible asset is impaired. This ASU 2012-02 is similar to last year's goodwill guidance which allows companies to perform a qualitative assessment to test goodwill for impairment. This guidance gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not (a likelihood of more than 50%) that an indefinite-lived intangible asset is impaired. If a company determines that it is more likely than not that the fair value of such as asset exceeds its carrying amount, it would not need to calculate the fair value of the asset in that year. However, if a company concludes otherwise, it must calculate the fair value of the asset, compare that value with its carrying amount and record an impairment charge, if any. To perform a qualitative assessment, a company must identify and evaluate changes in economic, industry and company-specific events and circumstances that could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of this guidance is not expected to have any effect on the Company's results of operations, financial position or liquidity.

Balance Sheet Offsetting

In December 2011, the FASB issued new guidance requiring additional disclosures about financial instruments and derivative instruments that are either: (1) offset for balance sheet presentation purposes or (2) subject to an enforceable master netting arrangement or similar arrangement, regardless of whether they are offset for balance sheet presentation purposes. This guidance will be effective at January 1, 2013, with retrospective presentation of the new disclosures required. As this new guidance is disclosure-related only and does not amend the existing balance sheet offsetting guidance, the adoption of this guidance is not expected to have an impact on our results of operations, financial condition or liquidity.

MAIDEN HOLDINGS, LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of U.S. dollars, except share and per share data)
(Unaudited)

3. Investments

(a) Fixed Maturities and Other Investments

The original or amortized cost, estimated fair value and gross unrealized gains and losses of available-for-sale and other investments as of September 30, 2012 and December 31, 2011 are as follows:

September 30, 2012	Original or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities:				
U.S. treasury bonds	$42,698	$1,444	$—	$44,142
U.S. agency bonds – mortgage-backed	1,039,056	41,312	(1,335)	1,079,033
U.S. agency bonds – other	16,672	1,544	—	18,216
Non-U.S. government bonds	55,556	1,367	(285)	56,638
Other mortgage-backed bonds	23,167	812	—	23,979
Corporate bonds	1,170,400	99,600	(8,475)	1,261,525
Municipal bonds	125,257	1,222	—	126,479
Total available-for-sale fixed maturities	2,472,806	147,301	(10,095)	2,610,012
Other investments	2,530	351	(55)	2,826
Total investments	$2,475,336	$147,652	$(10,150)	$2,612,838

December 31, 2011	Original or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities:				
U.S. treasury bonds	$44,175	$1,774	$—	$45,949
U.S. agency bonds – mortgage-backed	928,944	43,230	(75)	972,099
U.S. agency bonds – other	10,374	622	—	10,996
Non-U.S. government bonds	52,489	78	(293)	52,274
Other mortgage-backed bonds	9,919	1	—	9,920
Corporate bonds	742,867	47,726	(30,236)	760,357
Municipal bonds	168,338	728	—	169,066
Total available-for-sale fixed maturities	1,957,106	94,159	(30,604)	2,020,661
Other investments	1,955	318	(81)	2,192
Total investments	$1,959,061	$94,477	$(30,685)	$2,022,853

The contractual maturities of our fixed maturities, available-for-sale as of September 30, 2012 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations prior to contractual maturity.

MAIDEN HOLDINGS, LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of U.S. dollars, except share and per share data)
(Unaudited)

3. Investments (continued)

September 30, 2012	Amortized cost	Fair value	% of Total fair value
Maturity			
Due in one year or less	$49,944	$50,604	1.9 %
Due after one year through five years	376,564	385,644	14.8 %
Due after five years through ten years	817,467	900,455	34.5 %
Due after ten years	166,608	170,297	6.5 %
	1,410,583	1,507,000	57.7 %
U.S. agency bonds – mortgage-backed	1,039,056	1,079,033	41.4 %
Other mortgage-backed bonds	23,167	23,979	0.9 %
Total	$2,472,806	$2,610,012	100.0 %

The following tables summarize our available-for-sale securities and other investments in an unrealized loss position and the aggregate fair value and gross unrealized loss by length of time the securities have continuously been in an unrealized loss position:

September 30, 2012	Less than 12 Months		12 Months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale securities:						
U.S. agency bonds – mortgage-backed	$149,095	$(1,335)	$—	$—	$149,095	$(1,335)
Non–U.S. government bonds	27,610	(285)	—	—	27,610	(285)
Corporate bonds	37,480	(1,497)	134,043	(6,978)	171,523	(8,475)
	214,185	(3,117)	134,043	(6,978)	348,228	(10,095)
Other investments	1,710	(55)	—	—	1,710	(55)
Total temporarily impaired available-for-sale securities and other investments	$215,895	$(3,172)	$134,043	$(6,978)	$349,938	$(10,150)

As of September 30, 2012, there were approximately 39 securities in an unrealized loss position with a fair value of $349,938 and unrealized losses of $10,150. Of these securities, there are 8 securities that have been in an unrealized loss position for 12 months or greater with a fair value of $134,043 and unrealized losses of $6,978.

December 31, 2011	Less than 12 Months		12 Months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale securities:						
U.S. agency bonds – mortgage-backed	$30,447	$(75)	$—	$—	$30,447	$(75)
Non–U.S. government bonds	43,629	(293)	—	—	43,629	(293)
Corporate bonds	227,367	(7,406)	125,089	(22,830)	352,456	(30,236)
	301,443	(7,774)	125,089	(22,830)	426,532	(30,604)
Other investments	1,214	(81)	—	—	1,214	(81)
	$302,657	$(7,855)	$125,089	$(22,830)	$427,746	$(30,685)

Total temporarily impaired available-for-sale securities and other investments

As of December 31, 2011, there were approximately 62 securities in an unrealized loss position with a fair value of $427,746 and unrealized losses of $30,685. Of these securities, there are 8 securities that have been in an unrealized loss position for 12 months or greater with a fair value of $125,089 and unrealized losses of $22,830.

MAIDEN HOLDINGS, LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of U.S. dollars, except share and per share data)
(Unaudited)

3. Investments (continued)

Other-Than-Temporary Impairments ("OTTI")

We review our investment portfolio for impairment on a quarterly basis. Impairment of investments results in a charge to operations when a fair value decline below cost is deemed to be other-than-temporary. As of September 30, 2012, we reviewed our portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of investments. During the three and nine months ended September 30, 2012 and 2011, the Company recognized no OTTI. Based on our qualitative and quantitative OTTI review of each asset class within our fixed maturity portfolio, the remaining unrealized losses on fixed maturities at September 30, 2012 were primarily due to widening of credit spreads relating to the market illiquidity, rather than credit events. Because we do not intend to sell these securities and it is not more likely than not that we will be required to sell these securities until a recovery of fair value to amortized cost, we currently believe it is probable that we will collect all amounts due according to their respective contractual terms. Therefore, we do not consider these fixed maturities to be other-than-temporarily impaired at September 30, 2012.

The following summarizes the credit ratings of our fixed maturities:

Rating* as of September 30, 2012	Amortized cost	Fair value	% of Total fair value	
U.S. treasury bonds	$42,698	$44,142	1.7	%
U.S. agency bonds	1,055,728	1,097,249	42.0	%
AAA	171,235	179,352	6.9	%
AA+, AA, AA-	205,370	216,353	8.3	%
A+, A, A-	432,641	461,644	17.7	%
BBB+, BBB, BBB-	535,918	582,056	22.3	%
BB+ or lower	29,216	29,216	1.1	%
Total	$2,472,806	$2,610,012	100.0	%

Rating* as of December 31, 2011	Amortized cost	Fair value	% of Total fair value	
U.S. treasury bonds	$44,175	$45,949	2.3	%
U.S. agency bonds	939,318	983,095	48.6	%
AAA	160,319	161,945	8.0	%
AA+, AA, AA-	150,961	153,303	7.6	%
A+, A, A-	327,794	328,448	16.3	%
BBB+, BBB, BBB-	316,150	330,156	16.3	%
BB+ or lower	18,389	17,765	0.9	%
Total	$1,957,106	$2,020,661	100.0	%

*Ratings as assigned by Standard & Poor’s ("S&P")

(b) Other Investments

The table below shows our portfolio of other investments:

	September 30, 2012			December 31, 2011		
Investments in limited partnerships	$2,826	100.0	%	$2,192	100.0	%
Total other investments	$2,826	100.0	%	$2,192	100.0	%

The Company has an unfunded commitment on its investments in limited partnerships of approximately $3,174 as of September 30, 2012.

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3. Investments (continued)

(c) Realized and Unrealized Gains (Losses) on Investment

Realized gains or losses on the sale of investments are determined on the basis of the first in first out cost method and include adjustments to the cost basis of investments for declines in value that are considered to be other-than-temporary. The following provides an analysis of realized and unrealized gains (losses) on investment for the three and nine months ended September 30, 2012 and 2011:

For the Three Months Ended September 30, 2012	Gross gains	Gross losses	Net
Available-for-sale securities	$ 2,374	$ —	$ 2,374
Other investments	36	—	36
Net realized gains on investment	$ 2,410	$ —	$ 2,410

For the Three Months Ended September 30, 2011	Gross gains	Gross losses	Net
Available-for-sale securities	$ 1,036	$ (1,078)	$ (42)
Trading securities and short sales	1,898	(1,590)	308
Other investments	—	(23)	(23)
Net realized gains	2,934	(2,691)	243
Unrealized loss on short sales	—	(3,143)	(3,143)
Net realized and unrealized (losses) on investment	$ 2,934	$ (5,834)	$ (2,900)

For the Nine Months Ended September 30, 2012	Gross gains	Gross losses	Net
Available-for-sale securities	$ 2,374		$ 2,374
Short sales	—	(1,593)	(1,593)
Other investments	56	(1)	55
Net realized gains on investment	$ 2,430	$ (1,594)	$ 836

For the Nine Months Ended September 30, 2011	Gross gains	Gross losses	Net
Available-for-sale securities	$ 1,310	$ (1,118)	$ 192
Trading securities and short sales	2,708	(1,902)	806
Other investments	—	(117)	(117)
Net realized gains	4,018	(3,137)	881
Unrealized loss on short sales	—	(3,143)	(3,143)
Net realized and unrealized (losses) on investment	$ 4,018	$ (6,280)	$ (2,262)

Proceeds from sales of fixed maturities classified as available-for-sale were $120,865 and $106,041 for the nine months ended September 30, 2012 and 2011, respectively.

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3. Investments (continued)

Net unrealized gains on available-for-sale securities and other investments was as follows:

	September 30, 2012	December 31, 2011
Available-for-sale securities	$137,206	$63,555
Other investments	296	237
Total net unrealized gains	137,502	63,792
Deferred income tax expense	(96)	(55)
Net unrealized gains, net of deferred income tax	$137,406	$63,737
Change in net unrealized gains, net of deferred income tax	$73,669	$8,983

(d) Restricted Cash and Investments

We are required to maintain assets on deposit to support our reinsurance operations and to serve as collateral for our reinsurance liabilities under various reinsurance agreements. The assets on deposit are available to settle reinsurance liabilities. We also utilize trust accounts to collateralize business with our reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The assets in trust as collateral are primarily cash and highly rated fixed maturity securities. The fair value of our restricted assets was as follows:

	September 30, 2012	December 31, 2011
Restricted cash – third party agreements	$91,418	$67,627
Restricted cash – related party agreements	23,284	46,729
Restricted cash – U.S. state regulatory authorities	622	539
Total restricted cash	115,324	114,895
Restricted investments – in trust for third party agreements at fair value (Amortized cost: 2012 – $1,040,038; 2011 – $950,103)	1,091,390	972,130
Restricted investments – in trust for related party agreements at fair value (Amortized cost: 2012 – $796,778; 2011 – $458,105)	863,246	485,468
Restricted investments – in trust for U.S. state regulatory authorities (Amortized cost: 2012 – $12,747; 2011 – $12,862)	13,539	13,750
Total restricted investments	1,968,175	1,471,348
Total restricted cash and investments	$2,083,499	$1,586,243

(e) Other

Securities sold but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value and as of September 30, 2012 was $0 (December 31, 2011 - $55,830). This amount was included in accrued expenses and other liabilities in the condensed consolidated balance sheets. Collateral of an equivalent amount was pledged to the clearing broker.

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4. Fair Value of Financial Instruments

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in Accounting Standards Council ("ASC") 820. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 — Valuations based on unadjusted quoted market prices for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Examples of assets and liabilities utilizing Level 1 inputs include: exchange-traded equity securities, U.S. Treasury bonds, and listed derivatives that are actively traded.

- Level 2 — Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, or valuations based on models where the significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Examples of assets and liabilities utilizing Level 2 inputs include: listed derivatives that are not actively traded; U.S. government-sponsored agency securities; non-U.S. government obligations; corporate and municipal bonds; mortgage-backed bonds ("MBS") and asset-backed securities ("ABS"); short-duration high yield fund, and over-the-counter ("OTC") derivatives (e.g. foreign currency options and forward contracts).

- Level 3 — Valuations based on models where significant inputs are not observable. The unobservable inputs reflect our own assumptions about assumptions that market participants would use.

Examples of assets and liabilities utilizing Level 3 inputs include: insurance and reinsurance derivative contracts; hedge and credit funds with partial transparency; and collateralized loan obligation ("CLO") — equity tranche securities that are traded in less liquid markets.

In accordance with ASC 820, the Company determines fair value based on 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.

ASC 825, "Disclosure about Fair Value of Financial Instruments," requires all entities to disclose the fair value of their financial instruments, both assets and liabilities recognized and not recognized in the balance sheet, for which it is practicable to estimate fair value.

The following describes the valuation techniques used by the Company to determine the fair value of financial instruments held as of September 30, 2012.

U.S. Government and U.S. Government agencies: Comprised primarily of bonds issued by the U.S. Treasury, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, Government National Mortgage Association and the Federal National Mortgage Association. The fair values of U.S. government securities are based on quoted market prices in active markets, and are included in the Level 1 fair value hierarchy. We believe the market for U.S. Treasury securities is an actively traded market given the high level of daily trading volume. The fair values of U.S. government agency securities are priced using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of U.S. government agency securities are included in the Level 2 fair value hierarchy.

Non-U.S. Government bonds: Comprised of bonds issued by non-U.S. governments and their agencies along with supranational organizations. These securities are generally priced by pricing services. The pricing services may use current market trades for securities with similar quality, maturity and coupon. If no such trades are available, the pricing service typically uses analytical models which may incorporate spreads, interest rate data and market/sector news. As the significant inputs used to price non-U.S. government bonds are observable market inputs, the fair values of non-U.S. government bonds are included in the Level 2 fair value hierarchy.

Other mortgage-backed bonds: Other mortgage-backed bonds consist of a commercial mortgage-backed security ("CMBS"). This security is priced by independent pricing services and brokers. The pricing provider applies dealer quotes and other available trade information, prepayment speeds, yield curves and credit spreads to the valuation. As the significant inputs used to price the CMBS are observable market inputs, the fair value of the CMBS is included in the Level 2 fair value hierarchy.

4. Fair Value of Financial Instruments (continued)

Corporate bonds: Comprised of bonds issued by corporations that on acquisition are rated BBB-/Baa3 or higher. These securities are generally priced by pricing services. The fair values of corporate bonds that are short-term are priced, by the pricing services, using the spread above the London Interbank Offering Rate ("LIBOR") yield curve and the fair value of corporate bonds that are long-term are priced using the spread above the risk-free yield curve. The spreads are sourced from broker/dealers, trade prices and the new issue market. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. As the significant inputs used to price corporate bonds are observable market inputs, the fair values of corporate bonds are included in the Level 2 fair value hierarchy.

Municipal bonds: Municipal bonds comprise bonds and auction rate securities issued by U.S. state and municipality entities or agencies. The fair values of municipal bonds are generally priced by pricing services. The pricing services typically use spreads obtained from broker-dealers, trade prices and the new issue market. As the significant inputs used to price the municipal bonds are observable market inputs, municipals are classified within Level 2. Municipal auction rate securities are reported in the consolidated balance sheet at cost which approximates their fair value.

Other investments: The fair values of the investment in limited partnerships are determined by the fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals, and as such, the fair values are included in the Level 3 fair value hierarchy.

Reinsurance balance receivable: The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair value due to short term nature of the assets.

Loan to related party: The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair value. The underlying investments of the loan are generally priced by pricing services. As the significant inputs used to price the underlying investments are observable market inputs, the fair values of Loan to related party are included in the Level 2 fair value hierarchy.

Senior notes: The amount reported in the accompanying balance sheets for these financial instruments represents the carrying value of the notes. The fair values are based on quoted prices of identical instruments in inactive markets and as such, are included in the Level 2 hierarchy.

Junior subordinated debt: The amount reported in the accompanying balance sheets for these financial instruments represents the carrying value of the debt. The fair value of the debt was derived using the Black-Derman-Toy model. As the fair value of the junior subordinated debt is determined using observable market inputs in the Black-Derman-Toy model, the fair value is included in the Level 2 fair value hierarchy.

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4. Fair Value of Financial Instruments (continued)

(a) Fair Value Hierarchy

The following table presents the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of September 30, 2012 and December 31, 2011:

September 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Fixed maturities				
U.S. treasury bonds	$44,142	$—	$ —	$44,142
U.S. agency bonds – mortgage-backed	—	1,079,033	—	1,079,033
U.S. agency bonds – other	—	18,216	—	18,216
Non-U.S.government bonds	—	56,638	—	56,638
Other mortgage-backed bonds	—	23,979	—	23,979
Corporate bonds	—	1,261,525	—	1,261,525
Municipal bonds	—	126,479	—	126,479
Other investments	—	—	2,826	2,826
Total	$44,142	$2,565,870	$ 2,826	$2,612,838
As a percentage of total assets	1.1 %	65.0 %	0.1 %	66.2 %

December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				