

FOR IMMEDIATE RELEASE

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**CATLIN GROUP LIMITED ANNOUNCES
PRELIMINARY RESULTS FOR YEAR ENDED 31 DECEMBER 2004**

HAMILTON, Bermuda - Catlin Group Limited ('CGL': London Stock Exchange), the international property and casualty insurer and reinsurer, announces record premium income and net income for the year ended 31 December 2004.

Financial highlights:

- Net income increased to record US\$154.1 million (2003: US\$127.0 million) despite impact of exceptional hurricane losses
- Return on average equity was 19.1% (2003: 22.1%)
- Book value grew by 21.4% to US\$6.30 (£3.28) per share (2003: US\$5.19; £2.70)
- Gross premiums written rose to US\$1.43 billion (2003: US\$1.20 billion)
- Net premiums earned increased to US\$1.16 billion (2003: US\$844.9 million)
- Combined ratio was 89.4% (2003: 86.0%); exceptional hurricane losses added 6.5 percentage points to combined ratio
- Proposed final dividend is 15.6 US cents (8.1 pence) per share; proposed total dividend of 23.5 US cents (12.4 pence) per share represents 23.5% of net income

US\$000 (except as indicated)	2004	2003	% change
Gross premiums written	1,433,836	1,198,214	20%
Net premiums written	1,246,505	1,085,134	15%
Net premiums earned	1,161,110	844,947	37%
Income before income tax expense	173,942	146,350	19%
Net income	154,056	127,013	21%
Pro forma net income per share (US\$)	1.08	1.03	5%
Total dividends per share (cents)	23.5	-	--
Book value per share (US\$)	6.30	5.19	21%
Unearned premiums	722,891	612,325	18%
Effective tax rate	11.4%	13.2%	--
Combined ratio	89.4%	86.0%	--
Return on average equity	19.1%	22.1%	--

Continued

Catlin Group announces 2004 preliminary results / ... Page 2**Operational highlights:**

- Initial public offering of common shares raised \$182.6 million, net of expenses
- Strong growth of Corporate Direct and Corporate Reinsurance business segments; 31% of gross premiums written by these segments (2003: 22%)
- Positive contribution to profits from all business segments
- Successful establishment of Catlin UK, the Group's third operating platform; US\$200 million in gross premiums written in first year
- 1% increase in year on year weighted average rates reflects Group's commitment to disciplined underwriting

Outlook:

- Unearned premiums of US\$722.9 million written at favourable historic rates
- Rate reductions in January 2005 renewal season limited to 1%
- Investment income to benefit from cash and investments of almost US\$2 billion at 1 January 2005 (1 January 2004: US\$1.2 billion)
- Existing book of business expected to be relatively stable
- Continued focus on generating superior return on equity through:
 - Emphasis on underwriting profitability
 - Value enhancing opportunities
 - Active management of capital

Commenting on the Group's preliminary results, Sir Graham Hearne, Chairman of Catlin Group Limited, said:

"I am proud to announce that Catlin has produced record profits during its first year as a publicly listed company, despite the exceptional hurricane losses during the second half of 2004. The Group's excellent results reflect Catlin's focus on serving clients, its commitment to underwriting profitability and the advantages of its multi-platform structure. The total dividend of 23.5 cents amounts to 23.5 per cent of net income for 2004 and reflects our confidence in the current performance of the business and in its future prospects."

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Chief Executive Stephen Catlin said:

"I am very pleased with the Group's 2004 performance. Our 19.1 per cent return on average equity is an outstanding achievement, considering that the impact of the exceptional level of hurricane losses reduced our RoE by 7.2 percentage points.

"The 2005 renewal season has been satisfactory with only a marginal fall in average premium rates. The Group will maintain underwriting discipline and its focus on opportunities which enhance value. I believe we are well-positioned to deliver superior returns for shareholders in 2005."

This summary should be read in conjunction with the detailed announcement which follows.

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Media Relations:

James Burcke, Head of Communications

Tel: +44 (0)20 7458 5710
Mobile: +44 (0)7958 767 738
E-mail: james.burcke@catlin.com

Liz Morley, The Maitland Consultancy

Tel: +44 (0)20 7379 5151
E-mail: emorley@maitland.co.uk

Investor Relations:

William Spurgin, Head of Investor Relations

Tel: +44 (0)20 7458 5726
Mobile: +44 (0)7710 314 365
E-mail: william.spurgin@catlin.com

Notes to editors:

1. The Catlin Group, headquartered in Bermuda, is an international specialist property/casualty insurer and reinsurer writing more than 30 classes of business worldwide. Catlin wrote gross premiums of \$1.43 billion in 2004. Catlin shares are traded on the London Stock Exchange (ticker symbol: CGL).
2. Catlin management will make a presentation to investment analysts at 9.00am GMT today at its London office. The presentation will be broadcast live on the Group's website (www.catlin.com). The webcast will be also be available on the website following the presentation.

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3. Catlin's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ('US GAAP'). The Group reports in US dollars.
4. Pro forma net income per share has been calculated based on weighted average pro forma shares in issue of 142.8 million for 2004 and 122.9 million for 2003.
5. Rate of exchange at 31 December 2004: £1 = US\$1.92 (balance sheet); £1 = US\$1.83 (income statement); at 9 March 2005 £1 = US\$1.93.
6. Detailed information regarding Catlin's financial results for the year ended 31 December 2004 follow, including statements from the Chairman, Chief Executive and Chief Financial Officer and condensed unaudited financial statements.
7. Syndicate 2003 at Lloyd's (the Catlin Syndicate) and Catlin Insurance Company Ltd. (Catlin Bermuda and Catlin UK) have been assigned financial strength ratings of 'A' (Excellent) by A.M. Best Company.

Chairman's Statement

This is the first opportunity to report to you as the Chairman since Catlin Group Limited became a publicly listed company in April 2004. It is especially pleasing to do so at a time when the Group has achieved such excellent operating results. Net income rose by 21.3 per cent in 2004 to US\$154.1 million (2003: US\$127.0 million), despite the exceptional weather related claims caused by four hurricanes which struck the Southeastern United States and the Caribbean in the second half of the year. Premium growth continued to be strong, as gross premiums written increased by 19.7 per cent to US\$1.43 billion (2003: US\$1.20 billion).

All four of the Group's business segments performed well during the past year. Profits in the Corporate Direct and Corporate Reinsurance segments increased in 2004, reflecting the successful start-up of Catlin UK and the continued development of Catlin Bermuda. Good performance was also reported by the Lloyd's Direct and Lloyd's Reinsurance segments, especially in the light of the hurricane related losses.

Initial public offering

Catlin's initial public offering was concluded on 6 April 2004 when the Company's common shares began unconditional trading on the London Stock Exchange. Catlin raised US\$182.6 million, net of expenses, through the primary offering of common shares, while existing shareholders sold US\$150 million of their shares through a secondary offering.

We have received an excellent response from investors both during and following the IPO.

Dividend policy

As a newly listed company, Catlin has established a dividend policy under which dividend payments will be linked to the current performance of the business and future prospects.

The Board of Directors proposes a final dividend of 15.6 cents (8.1 pence) per share, payable on 31 May 2005 to shareholders of record at the close of business on 29 April 2005. This dividend is in addition to the interim dividend of 7.9 cents (4.3 pence) per share that was paid on 15 November 2004. The final dividend is calculated in US dollars but declared in sterling based on the exchange rate of £1=US\$1.93 on 9 March 2005.

The proposed final dividend is consistent with that envisaged at the time of our interim results, notwithstanding the impact of the hurricane losses sustained in the second half of the year.

Board of Directors

The composition of the Board of Directors was changed prior to the IPO. Mark Hoplamazian, Jeff Hughes, David Jaffe and Eric Rahe, all of whom were representatives of our private equity investors, stepped down from the Board in March 2004. I would like to take this opportunity to thank them for their hard work during a very important period for Catlin. At the same time, Alan Bossin and John Marion joined the Board, bringing the total number of Directors to 12.

The Board faced a heavy workload in 2004, with the challenges created by the IPO adding to the Directors' already substantial duties. I would like to thank all of our Directors for their very hard work during what proved to be a successful year for the Group.

Outlook

Catlin's performance over the past two years, both of which have been record setting in terms of profitability, reflects the advantages of the Group's structure, its focus on serving clients and the commitment across the Group to underwriting profitability. Whilst the global insurance and reinsurance market is growing more competitive, I believe that Catlin's underwriting discipline, efficient use of capital, focus on client service and multi-platform structure provide a solid base on which the Group can continue to produce excellent results.

Stephen Catlin and his team have done an outstanding job over the past year. It is a pleasure to work with Stephen and the entire Catlin staff. I thank them for their dedication and enthusiasm and look forward to working with them to build value for shareholders in the future.

Sir Graham Hearne

Chairman
10 March 2005

Chief Executive's Review

Our outstanding performance during 2004 is the result of favourable market conditions, our disciplined underwriting strategy, the Group's innovative structure, and the skill and commitment of our employees.

Net income increased by 21.3 per cent in 2004 to a record US\$154.1 million (2003: US\$127.0 million) despite hurricane related losses which, after taking into account planning assumptions, reduced profits on a pre-tax basis by approximately US\$75 million. Return on average equity amounted to 19.1 per cent (2003: 22.1 per cent). The combined ratio stood at 89.4 per cent (2003: 86.0 per cent), even though the hurricane losses increased the combined ratio by approximately six percentage points. Gross written premiums increased by 19.7 per cent, while net earned premiums rose by 37.4 per cent.

Market environment

Market conditions during 2004 remained strong. Whilst rates and terms for many classes of business -- particularly property classes -- came under competitive pressure as the year progressed, the hurricane losses slowed the slide in rates for property catastrophe reinsurance and other classes. Weighted average premium rates across all classes of business increased by 1 per cent during 2004. For the 1 January 2005 renewal period, weighted average premium rates decreased by only 1 per cent, which we consider encouraging and a testimony to our disciplined underwriting capability. Despite the pessimism of some market observers, I believe that very favourable opportunities for profitable underwriting remain.

Whilst Hurricanes Charley, Frances, Ivan and Jeanne caused significant losses for the Group in 2004, the Indian Ocean tsunami in December did not have a material impact on Catlin's financial results. The cost of the tsunami to the global insurance industry was slight compared with the great human and economic suffering.

Strategy and structure

The cornerstone of Catlin's operating strategy since the Group began business 20 years ago has been underwriting profitability. We focus on business that produces sustainable underwriting profits across cycles. As markets soften, our underwriting discipline will be tested, but it is Catlin's firm policy to emphasise long term profitability over short term gains in market share. The key to Catlin's performance has been the diversification of its risk portfolio across carefully selected classes of business, targeting those with the greatest potential for gross underwriting profit.

Catlin during 2004 reaped the benefits of the innovative multi-platform structure that we have worked extremely hard to develop. Our principal underwriting platform remains the Catlin Syndicate at Lloyd's, but a growing percentage of our business -- and our profits -- are produced by Catlin Bermuda, which began underwriting business in 2002, and Catlin UK, which began underwriting in 2004. Both of these platforms are progressing according to our plans and provide access to alternative distribution channels. We also benefit from the fact that the Company is incorporated in Bermuda, which gives us superior capital and financial flexibility.

We actively manage our capital against a forward looking economic model. This will be particularly important in 2005 as we continue to seek value creating opportunities and develop capital management strategies which I believe will increase shareholder returns.

We are enhancing the way we manage our operations on a Group basis, which I believe will further increase the efficiency of our processes and the quality of our service to clients and brokers. Other goals for the coming year include strengthening the flow of business from the United States, expanding our network of international offices, and continuing efforts to work more closely with retail brokers and their clients. Catlin UK is expanding its presence outside London to underwrite more business placed outside the London market for UK commercial clients. Catlin Bermuda is continuing to broaden the classes of business it offers to its clients.

People, process and performance

If there is a secret to Catlin's success, it is our people. We have a great group of employees, a mixture of those who have been with us for many years and talented newcomers, hired as the Group has grown in recent years. I thank them all for their hard work which has resulted in our outstanding performance.

Catlin's corporate culture gives underwriters and other key employees significant responsibilities for business decisions. We believe that underwriters make the best underwriting decisions. However, we insist that these decisions are closely monitored and controlled. We are steadfast in ensuring that our control processes are second to none. We have effective tools in place to ensure that underwriting decisions are technically sound and based on a rigorous analytical approach. Our underwriters can rely on extensive actuarial support and detailed pricing models. All Catlin offices share a single data system and follow the same procedures to ensure that we make consistent underwriting decisions across the Group.

Stephen Catlin
Chief Executive
10 March 2005

Business Segments and Operating Platforms

Business Segments

Catlin reports its financial results through four business segments.:

- **Lloyd's Direct** comprises direct insurance business underwritten by the Catlin Syndicate;
- **Lloyd's Reinsurance** comprises reinsurance business underwritten by the Catlin Syndicate;
- **Corporate Direct** encompasses direct insurance business underwritten by Catlin Bermuda and Catlin UK; and
- **Corporate Reinsurance** consists of reinsurance business underwritten by Catlin Bermuda and Catlin UK. This includes intra-segment reinsurance assumed by Catlin Bermuda.

By dividing its business into these segments, observers can track the progress of Catlin's long established operations at Lloyd's separately from the more recently established Catlin Bermuda and Catlin UK.

Comparisons of the premiums written by each of the segments in 2004 and 2003 are shown in the following tables:

2004

US\$m	Premiums written ¹	Intra-Group reinsurance	Premiums written ²
Lloyd's Direct	870.4	(70.6)	799.8
Lloyd's Reinsurance	211.2	(19.6)	191.6
Corporate Direct	225.2	--	225.2
Corporate Reinsurance	127.0	90.2	217.2
Total	1,433.8	-	1,433.8

2003

US\$m	Premiums written ¹	Intra-Group reinsurance	Premiums written ²
Lloyd's Direct	906.3	(151.6)	754.7
Lloyd's Reinsurance	234.9	(49.5)	185.4
Corporate Direct	4.4	--	4.4
Corporate Reinsurance	52.6	201.1	253.7
Total	1,198.2	--	1,198.2

¹ Prior to intra-Group reinsurance elimination

² After intra-Group reinsurance elimination

Premiums written in the Lloyd's Direct and Lloyd's Reinsurance segments were relatively stable in 2004, reflecting the fact that the Catlin Syndicate's stamp capacity was £500 million in both 2004 and 2003. The amount of intra-Group reinsurance ceded by the Lloyd's Direct and Lloyd's Reinsurance segments decreased by 55 per cent in 2004 due to the decision by Lloyd's to reduce the maximum amount of qualifying quota share ('QQS') reinsurance for all syndicates to 10 per cent of premiums written (2003: 30 per cent). This also accounts for the reduction in premiums written after intra-Group reinsurance elimination in the Corporate Reinsurance segment in 2004.

Premiums written in both the Corporate Direct and the Corporate Reinsurance segments prior to intra-Group reinsurance elimination grew strongly in 2004. This reflects the business that has been developed by Catlin Bermuda and Catlin UK.

The growth in premiums written by the Corporate Direct and Corporate Reinsurance segments is in keeping with Catlin's stated goal that approximately 50 per cent of gross premiums will be written by these two segments by the end of 2007. In 2004 the Corporate Direct and Corporate Reinsurance segments accounted for nearly 31 per cent of premiums written (2003: 22 per cent) after to intra-Group reinsurance elimination.

Catlin Syndicate

The Catlin Syndicate at Lloyd's (Syndicate 2003) is the oldest of Catlin's three underwriting platforms. The Syndicate is the eighth largest syndicate at Lloyd's, based on £500 million in stamp capacity for 2005 (2004 and 2003: £500 million), all of which is supplied by the Catlin Group.

The Syndicate's stamp capacity was purposefully held steady in 2004 and again in 2005. This strategy has allowed the Syndicate to take advantage of new, profitable underwriting opportunities within Lloyd's from its position as a respected market leader. At the same time, the Syndicate has also refused to underwrite business whose rates and terms were deemed to be inadequate.

The Syndicate continues to expand in classes of business that promise substantial returns. During 2004, the amount of satellite and space related premiums underwritten by the Syndicate nearly doubled, taking advantage of favourable market conditions and the expertise the Syndicate has developed in this specialist class. Also during the year, the Syndicate established a new speciality in

Construction & Engineering insurance after hiring an underwriter with substantial experience in this class.

Gross premiums written by the Syndicate in 2004 amounted to US\$1.08 billion on a US GAAP basis (2003: US\$1.14 billion).

Under Lloyd's three year syndicate accounting rules, the Catlin Syndicate's 2002 year of account was closed at the end of 2004 with a return equal to 9.5 per cent of capacity. The 2002 year of account was also the final year of underwriting for Syndicate 1003, the original syndicate managed by the Catlin Group and whose capital was supplied by traditional Lloyd's Names and other third party capital providers. The outstanding liabilities of Syndicate 1003 have been reinsured to close with the Catlin Syndicate as at 31 December 2004.

Catlin Bermuda

During its second full year of operations, Catlin Bermuda (Catlin Insurance Company Ltd.) consolidated its position as a leading underwriter in the vibrant Bermuda market.

Catlin Bermuda writes a diversified portfolio of both property and casualty treaty reinsurance as a lead or quoting market. Property treaty reinsurance is weighted towards worldwide catastrophe business, including workers compensation catastrophe excess of loss, but also includes a substantial risk excess and pro rata account. Casualty reinsurance is focused on providing protection to mutual insurers, captives and other risk financing mechanisms formed principally in the United States by homogeneous groups such as physicians, hospitals, nursing homes and lawyers.

In addition, Catlin Bermuda underwrites a number of specialist classes of insurance, including medical malpractice, political risk and terrorism, benefiting from its status as an approved surplus lines insurer in numerous US states and jurisdictions. The Company also offers multi-year structured risk contracts to large corporate clients.

Excluding intra-Group reinsurance, gross premiums written by Catlin Bermuda grew by 168 per cent to US\$152.6 million (2003: US\$57.0 million). Stockholder's equity in Catlin Insurance Company Ltd. rose by 51.1 per cent to US\$892.8 million at 31 December 2004 (31 December 2003: US\$590.9 million).

Catlin Bermuda over the past two years has assembled a multi-disciplinary team of underwriters, actuaries, finance professionals, lawyers and support staff. The company is committed to the recruitment of Bermudians, taking advantage of the Catlin Group's professional development programme that allows for extended periods of training in London and in other Catlin offices.

Catlin UK

Catlin UK is the newest of Catlin's three underwriting platforms, having begun underwriting with effect from 1 January 2004. In its first year of operations, Catlin UK wrote US\$199.7 million in gross premiums.

This business came from two sources:

- specialty insurance that was written in parallel with the Catlin Syndicate at Lloyd's; and
- professional indemnity, property, general liability, directors' and officers' liability, and commercial crime insurance underwritten in the UK market. These classes have previously been underwritten by the Catlin Syndicate.

Most of the UK business written by Catlin UK in 2004 was produced by London based brokers which the Catlin Syndicate has served for many years. However, in 2005 Catlin UK is expanding its focus to include major UK regional brokers to broaden its distribution channels.

As part of the strategy to serve a more diverse distribution network, Catlin UK in 2004 developed an online quotation engine that allows selected brokers to receive premium quotations rapidly over the internet. The implementation of the quotation engine will allow Catlin UK to service business for smaller to medium size UK clients more efficiently and provide decisions to brokers more quickly.

During 2004 Catlin UK recruited a team of experienced underwriters to manage business written for UK commercial clients. It continues to share resources with the Catlin Syndicate to underwrite global specialty business.

Catlin UK was originally established as the UK Branch of Catlin Insurance Company Ltd. of Bermuda. In March 2005 the UK Financial Services Authority said that it was 'minded to authorise' the Group's proposal to convert Catlin UK into a subsidiary of the Bermuda company (Catlin Insurance Company (UK) Ltd.). Gaining subsidiary status will give Catlin UK the ability to underwrite business in all nations within the European Economic Area, which will allow it to expand the service it provides to the Group's core brokers and clients.

Financial review

2004 has been a year of excellent performance, particularly given the incidence of large losses. The following contains commentary on Catlin's financial statements for the year ended 31 December 2004, which are prepared in accordance with US GAAP.

Consolidated results of operations

US\$m	2004	2003	% change
Gross premiums written	1,433.8	1,198.2	19.7%
Reinsurance premiums ceded	(187.3)	(113.1)	65.6%
Net premiums written	1,246.5	1,085.1	14.9%
Change in unearned premiums	(85.4)	(240.2)	(64.4%)
Net premiums earned	1,161.1	844.9	37.4%
Losses and loss expenses	(660.4)	(424.6)	55.5%
Policy acquisition costs	(302.8)	(250.1)	21.1%
Administrative expenses	(57.3)	(43.7)	31.1%
Other expenses	(26.6)	(15.2)	75.0%
Net underwriting result	114.0	111.3	2.4%
Net investment income	47.0	23.8	97.5%
Net realised gains on investments	3.4	1.2	183.3%
Net realised gains on foreign currency	8.9	10.0	(11.0%)
Other income	0.7	-	-
Net income before income taxes	174.0	146.3	18.9%
Income tax expense	(19.9)	(19.3)	3.1%
Net income	154.1	127.0	21.3%
Loss ratio	56.9%	50.3%	
Expense ratio	32.5%	35.7%	
Combined ratio	89.4%	86.0%	
Effective tax rate	11.4%	13.2%	
Return on average equity	19.1%	22.1%	

Gross premiums written

Gross premiums written in 2004 increased 19.7 per cent to US\$1.43 billion (2003: US\$1.20 billion). This growth, as expected, came from the Corporate Direct and Corporate Reinsurance business segments. Thirty-one per cent of the Group's 2004 consolidated gross premiums were written in these segments (2003: 22 per cent). Excluding intra-Group reinsurance, gross premiums written in the Corporate Direct and Corporate Reinsurance segments increased by more than 500 per cent to US\$352.2 million in 2004 (2003: US\$57.0 million).

The gross premiums written by each of the Group's business segments are shown in the table below:

US\$m	2004	2003
Lloyd's Direct	870.4	906.3
Lloyd's Reinsurance	211.2	234.9
Corporate Direct	225.2	4.4
Corporate Reinsurance	217.2	253.7
Intra-Group reinsurance elimination	(90.2)	(201.1)
Total	1,433.8	1,198.2

Net premiums earned

Net premiums earned in 2004 increased by 37.4 per cent to US\$1.16 billion (2003: US\$844.9 million). The start-up of Catlin UK during 2004 contributed significantly to the increase in net premiums earned, as did Catlin Bermuda, which wrote significantly more business during 2004. Net premiums earned increased in both the Lloyd's Direct and the Lloyd's Reinsurance segments due to the increased level of gross premiums underwritten by the Catlin Syndicate in 2003. At the end of 2002 the Group purchased the entire capacity of Syndicate 1003 that had been supplied by traditional Lloyd's Names and other third party capital providers; that capacity was allocated to the Catlin Syndicate during 2003. A significant portion of the increased premium volume underwritten by the Catlin Syndicate in 2003 was earned in 2004.

Losses and loss expenses

The loss ratio rose by 6.6 percentage points to 56.9 per cent in 2004 (2003: 50.3 per cent). The 55.5 per cent increase in loss and loss expenses was driven by the growth in net premiums earned and the exceptional loss activity in 2004.

The increase in the loss ratio was chiefly a result of claims stemming from the four hurricanes (Charley, Frances, Ivan and Jeanne) that caused extensive damage in the Caribbean and the Southeastern United States in August and September 2004. The gross loss to the Group from the four hurricanes amounted to US\$212.4 million; the loss net of reinsurance amounted to US\$114.6 million. We expect a level of catastrophe loss activity during the year and after allowing for expected catastrophe losses and reinsurance reinstatement costs, the net effect of the four hurricanes on the Group's net income before income taxes amounted to approximately US\$75 million, or 6.5 percentage points on the loss ratio.

Expense ratio

The expense ratio in 2004 improved by 3.2 percentage points to 32.5 per cent (2003: 35.7 per cent). The absolute level of policy acquisition costs increased by 21.1 per cent to US\$302.8 million in 2004 (2003: US\$250.1 million). This increase was fuelled by the 37.4 per cent increase in net premiums earned. The policy acquisition cost ratio improved by 3.5 percentage points after allowing for the one-off effect that boosted the ratio in 2003.

During 2004 the Group changed its method of calculating its expense ratio to follow market practice more closely. Previously, all expenses were included in the calculation, whereas now financing costs and amortisation expense are excluded. Comparative figures are presented on this revised basis.

The absolute level of administrative and other expenses increased by 42.4 per cent to US\$83.9 million in 2004 (2003: US\$58.9 million). This increase was slightly ahead of the growth in net earned premiums. Staff numbers increased throughout 2004 to manage the growing volume of business. Additional costs were incurred related to the listing of the Company's common shares, including directors' and officers' liability insurance premiums, internal audit costs and share registrar expenses. Lloyd's related costs, which cannot be controlled by the Group, increased during 2004 largely due to a new charge levied by Lloyd's on the qualifying quota share reinsurance ceded by the Catlin Syndicate to Catlin Bermuda.

Net investment income and net realised gains on investments

(US\$m)	2004	2003
Total investments at 31 December	1,982.7	1,237.2
Net investment income	47.0	23.8
Net realised gains on investments	3.4	1.2
Change in net unrealised gains on investments	5.3	3.7
	55.7	28.7
Return on average funds held	3.4%	2.8%

Net investment income and net realised gains on investments increased by 101.6 per cent to US\$50.4 million (2003: US\$25.0 million). The increase was primarily due to the higher investment base during 2004 as a result of strong cash flows from operations, the successful initial public offering ('IPO') of the Company's common shares in April 2004 and a higher proportion of the investment portfolio invested in bonds rather than cash and short term instruments.

Total return on average investments increased to 3.4 per cent in 2004 (2003: 2.8 per cent). This is due to the fact that the average duration of fixed income securities (excluding cash) rose to 2.9 years at year end 2004 (31 December 2003: 2.4 years). In addition, yields on cash and short term instruments rose in 2004.

Net realised gain on foreign currency exchange

The Group reports its financial results in US dollars. The US\$8.9 million net realised gain on foreign currency exchange (2003: US\$10.0 million) was primarily the result of the strengthening of sterling against the US dollar impacting the valuation of our sterling denominated assets.

Income tax expense

The Group's effective tax rate for 2004 reduced by 1.8 percentage points to 11.4 per cent (2003: 13.2 per cent). Income tax expense in 2004 amounted to US\$19.9 million (2003: US\$19.3 million).

Balance sheet

The Group's balance sheet at 31 December 2004 was strong and liquid as follows:

US\$m (except per share amounts)	2004	2003	% change
Investments and cash	1,982.7	1,237.2	60.3%
Premiums receivable	629.5	472.6	33.2%
Amount due from reinsurers	448.7	381.7	17.6%
Deferred acquisition costs	142.5	130.2	9.4%
Intangible assets	71.2	70.5	1.0%
Other assets	98.5	100.3	(1.8%)
Gross loss reserves	(1,472.8)	(962.5)	53.0%
Unearned premiums	(722.9)	(612.3)	18.1%
Notes payable	(50.2)	(50.1)	0.2%
Other liabilities	(156.0)	(129.0)	20.9%
Stockholders' equity	971.2	638.6	52.1%
Stockholders' equity per share ¹	US\$6.30	US\$5.19	

¹ Based on 154.1 million shares in issue on 31 December 2004; pro forma 122.9 million shares in issue on 31 December 2003

The chart below shows the principal components of the growth in stockholders' equity during the year.

(US\$m)

Stockholders' equity at 31 December 2003	638.6
IPO net proceeds	182.6
2004 interim dividend	(11.9)
2004 net income	154.1
Other	7.8
Stockholders' equity at 31 December 2004	971.2

Investments and cash

Total investments and cash grew by 60.3 per cent to US\$1.98 billion at 31 December 2004 (31 December 2003: US\$1.24 billion). The Group has continued to maintain a conservative investment philosophy, with assets invested in a portfolio of fixed maturities, short term investments and cash. The fixed maturities are all high quality, primarily with ratings of AA or higher.

Reinsurance recoverables

Amounts due from reinsurers decreased to 30.5 per cent of gross loss reserves at 31 December 2004 (31 December 2003: 39.7 per cent). The absolute amount due from reinsurers increased during 2004, primarily reflecting recoveries due and anticipated in respect of losses relating to the four hurricanes. More than 90 per cent of the amounts due are from reinsurers rated 'A-' or better by A M Best (or equivalent), and \$169.4 million of the amount recoverable is secured through segregated trust funds held for the account of Catlin.

Reserves

Gross loss reserves increased by 53.0 per cent during 2004. Net loss reserves as a proportion of shareholders' equity increased to 114.7 per cent at 31 December 2004 (31 December 2003: 112.8 per cent), primarily reflecting increased loss activity during 2004, particularly due to the hurricane losses in the second half of the year which resulted in a relatively higher level of unsettled claim amounts at the balance sheet date.

The Group continues to adopt a reserving policy whereby loss reserves are set conservatively relative to the range of estimates of both internal actuaries and independent actuarial advisors. Financial results for 2004 benefited from a release of \$38.3 million in respect of prior years' reserves.

Unearned premiums

The provision for unearned premiums increased by 18.1 per cent to US\$722.9 million (31 December 2003: US\$612.3 million). Substantially all of the unearned premium provision will be earned to income during 2005 at the high levels of rate adequacy experienced during 2004, the year during which most of this business was underwritten.

Cash and capital management

Intra-Group reinsurance

The use of intra-Group reinsurance is central to the management of the Group's capital. The Group seeks to maintain economic capital within Catlin Bermuda to the maximum extent possible and to manage the insurance risk portfolio on a Group basis, regardless of the underwriting platform from which the risks are originally underwritten.

Cash and liquidity

A summary of the growth in cash and invested assets is shown in the table below:

(US\$m)	
1 January 2004	1,237.2
Operating cash	550.7
Non-operating cash	23.8
IPO proceeds	183.1
Dividends paid	(12.1)
31 December 2004	1,982.7

Under the terms of banking arrangements, the Group is required to comply with covenants relating to minimum levels of cash, net assets and net tangible assets. The Group has complied with these covenants throughout the year and remains in compliance at the date of this report.

Gearing and banking facility

The two main elements of the Group's gearing at 31 December 2004 are a US\$50.0 million unsecured revolving credit facility which is fully drawn and used by the Group to subscribe capital to Catlin Bermuda, and a £117.1 million (US\$224.7 million) unsecured letter of credit which is used to provide part of the Funds at Lloyd's (FAL) supporting the Catlin Syndicate. A third element of gearing is the use of a small amount of further unsecured letters of credit to support certain liabilities of Catlin Bermuda and Catlin UK. Overall gearing at 31 December 2004 was as follows:

(US\$m)	
Notes payable (revolving credit)	50.2
Unsecured letters of credit for FAL	224.7
Unsecured letters of credit for Catlin UK/Catlin Bermuda	15.7
Total	290.6
Financing as a proportion of stockholders' equity	29.9%

Foreign currency management

US dollars account for the majority of the Group's cash flow. A significant part of the remaining cash flow is in sterling; the Group also maintains euro and Canadian dollar funds. Management of foreign currency exposures is primarily focused on analysis and matching of expected cash flows; derivatives or other financial instruments have not been utilised. Forward purchases and sales of currency are used when known currency needs are identified.

Information on International Financial Reporting Standards ('IFRS')

The consolidated financial statements of EU companies with securities listed on a regulated market in any EU nation will be required to be prepared in accordance with IFRS, issued by the International Accounting Standards Board, for accounting periods commencing on or after 1 January 2005.

As the Group is incorporated in Bermuda, it has the choice of preparing its financial statements in accordance with UK GAAP, US GAAP or IFRS under the current rules of the UK Listing Authority. It has selected US GAAP. In order to facilitate comparison to its UK incorporated peers, the Group presents a reconciliation of net income and stockholders' equity to UK GAAP in its consolidated financial statements. The Group will reconcile to IFRS beginning in 2005.

Christopher Stooke
Chief Financial Officer
10 March 2005

Catlin Group Limited

Consolidated Condensed Balance Sheets

As at 31 December 2004 and 2003 (US Dollars in thousands, except share amounts)

	2004	2003
Assets		
Investments		
Fixed maturities, available-for-sale (amortised cost 2004: \$1,441,014; 2003: \$750,051)	\$1,452,198	\$755,905
Short-term investments	173,037	153,101
Cash and cash equivalents	354,608	325,667
Investment in associate	2,869	2,542
Total investments	1,982,712	1,237,215
Accrued investment income	15,925	9,281
Premiums and other receivables	629,544	472,706
Reinsurance recoverable (net of allowance of 2004: \$18,864; 2003: \$14,157)	390,945	287,165
Deposit with reinsurer	57,830	94,470
Reinsurers' share of unearned premiums	51,748	38,287
Deferred acquisition costs	142,511	130,185
Intangible assets and goodwill (accumulated amortisation 2004: \$29,163 ; 2003: \$23,257)	71,238	70,531
Deferred taxes	-	7,082
Other assets	30,673	45,542
Total assets	\$3,373,126	\$2,392,464
Liabilities and stockholders' equity		
Liabilities		
Unpaid losses and loss expenses	\$1,472,819	\$962,535
Unearned premiums	722,891	612,325
Deferred gain	19,548	29,089
Reinsurance payable	59,137	43,520
Notes payable	50,187	50,107
Accounts payable and other liabilities	70,138	56,251
Deferred taxes	7,219	-
Total liabilities	\$2,401,939	\$1,753,827

The accompanying notes are an integral part of the consolidated condensed financial statements.

Catlin Group Limited

Consolidated Condensed Balance Sheets

As at 31 December 2004 and 2003 (US Dollars in thousands, except share amounts)

	2004	2003
Stockholders' equity		
Preference shares		
Class A cumulative convertible preference shares, par value \$0.0001 (2004: nil; 2003: Authorised 110,000,000; Issued and outstanding 15,000,000)	\$-	\$2
Class B-1 cumulative convertible preference shares, par value \$0.0001 (2004: nil; 2003: Authorised 470,000,000; Issued and outstanding 457,000,000)	-	46
Class B-2 cumulative convertible preference shares, par value \$0.0001 (2004: nil; 2003: Authorised, issued and outstanding 25,000,000)	-	2
Common shares		
Ordinary common shares, par value \$0.0001 (2004: nil; 2003: issued and outstanding 75,109,082)	-	8
Ordinary common shares, par value \$0.01 Authorised 250,000,000; 2004: issued and outstanding 154,097,989; 2003: nil)	1,541	-
Additional paid-in capital	716,649	533,276
Accumulated other comprehensive income/(loss)	4,156	(1,406)
Retained earnings	248,841	106,709
Total stockholders' equity	971,187	638,637
Total liabilities and stockholders' equity	\$3,373,126	\$2,392,464

The financial statements were approved by the Board of Directors on 10 March 2005 and signed on its behalf by:

Stephen Catlin, Chief Executive

Christopher Stooke, Chief Financial Officer

The accompanying notes are an integral part of the consolidated condensed financial statements.

Catlin Group Limited

Consolidated Condensed Statements of Operations

For the Years Ended 31 December 2004 and 2003 (US Dollars in thousands, except share amounts)

	2004	2003
Revenues		
Gross premiums written	\$1,433,836	\$1,198,214
Reinsurance premiums ceded	(187,331)	(113,080)
Net premiums written	1,246,505	1,085,134
Change in unearned premiums	(85,395)	(240,187)
Net premiums earned	1,161,110	844,947
Net investment income	46,974	23,796
Net realised gains on investments	3,358	1,151
Net realised gains on foreign currency exchange	8,865	10,024
Other income	759	52
Total revenues	1,221,066	879,970
Expenses		
Losses and loss expenses	660,437	424,625
Policy acquisition costs	302,791	250,111
Administrative expenses	57,294	43,674
Other expenses	26,602	15,210
Total expenses	1,047,124	733,620
Income before income tax expense	173,942	146,350
Income tax expense	(19,886)	(19,337)
Net income	\$154,056	\$127,013
Earnings per common share		
Basic	\$1.31	\$6.54
Diluted	\$1.00	\$0.92

The accompanying notes are an integral part of the consolidated condensed financial statements.

Catlin Group Limited

Consolidated Condensed Statements of Changes in Stockholders' Equity and Accumulated Other Comprehensive Income

For the Years Ended 31 December 2004 and 2003 (US Dollars in thousands, except share amounts)

	Common stock	Preference shares	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance						
1 January 2003	\$7	\$55	\$530,304	(\$20,304)	(\$1,075)	\$508,987
Comprehensive income:						
Net income	-	-	-	127,013	-	127,013
Other comprehensive loss	-	-	-	-	(331)	(331)
Total comprehensive income	-	-	-	127,013	(331)	126,682
Stock option scheme expense	-	-	1,859	-	-	1,859
Stock options exercised	1	-	1,108	-	-	1,109
Change in shareholdings	-	(5)	5	-	-	-
Balance						
31 December 2003	\$8	\$50	\$533,276	\$106,709	\$(1,406)	\$638,637
Comprehensive income:						
Net income	-	-	-	154,056	-	154,056
Other comprehensive income	-	-	-	-	5,562	5,562
Total comprehensive income	-	-	-	154,056	5,562	159,618
Payment of PIK dividend	4	-	(4)	-	-	-
Redesignation of preference shares	50	(50)	-	-	-	-
19-1 bonus issue	1,167	-	(1,167)	-	-	-
Global Offer	312	-	182,315	-	-	182,627
Stock option scheme expense	-	-	2,099	-	-	2,099
Stock options exercised	-	-	130	-	-	130
Dividends paid	-	-	-	(11,924)	-	(11,924)
Balance						
31 December 2004	\$1,541	\$-	\$716,649	\$248,841	\$4,156	\$971,187

The accompanying notes are an integral part of the consolidated condensed financial statements.

Catlin Group Limited

Consolidated Condensed Statements of Cash Flows

For the Years Ended 31 December 2004 and 2003 (US Dollars in thousands, except share amounts)

	2004	2003
Cash flows provided by operating activities		
Net income	\$154,056	\$127,013
Adjustments to reconcile net income to net cash provided by operations:		
Amortisation and depreciation	10,742	7,297
Amortisation of discounts of fixed maturities	(2,317)	(2,324)
Net realised (gains) on investments	(3,358)	(1,151)
Unpaid losses and loss expenses	423,817	175,637
Unearned premiums	67,485	181,247
Premiums and other receivables	(187,251)	(112,787)
Deferred acquisition costs	(3,518)	(54,362)
Reinsurance payable	42,358	(21,081)
Reinsurance recoverable	(63,542)	19,999
Reinsurers' share of unearned premiums	2,211	25,251
Deposit with reinsurer	36,640	24,681
Deferred gain	(3,893)	(8,506)
Accounts payable and other liabilities	7,869	1,048
Deferred tax	3,035	22,973
Other	66,396	(45,918)
Net cash flows provided by operating activities	550,730	339,017
Cash flows used in investing activities		
Purchases of fixed maturities	(1,370,658)	(2,870,999)
Purchases of short-term investments	(738,956)	(152,715)
Proceeds from sales of fixed maturities	672,950	2,220,879
Proceeds from maturities of fixed maturities	11,670	75,466
Proceeds from sales of short-term investments	727,563	74,561
Purchase of intangible assets	(161)	(546)
Purchases of property and equipment	(12,233)	(10,810)
Proceeds from sales of property and equipment	85	185
Net cash flows used in investing activities	(709,740)	(663,979)

The accompanying notes are an integral part of the consolidated condensed financial statements.

Catlin Group Limited

Consolidated Condensed Statements of Cash Flows

For the Years Ended 31 December 2004 and 2003 (US Dollars in thousands, except share amounts)

	2004	2003
Cash flows provided by financing activities		
Proceeds from issue of common shares	183,127	-
Dividends paid on common shares	(12,085)	-
Proceeds from notes payable	200,000	100,000
Repayment of notes payable	(200,000)	(50,000)
Repayment of long term debt	-	(30)
Proceeds from exercise of stock options	130	1,079
Net cash flows provided by financing activities	171,172	51,049
Net increase/(decrease) in cash and cash equivalents	12,162	(273,913)
Cash and cash equivalents – beginning of year	325,667	523,536
Effect of exchange rate changes	16,779	76,044
Cash and cash equivalents – end of year	\$354,608	\$325,667
Supplemental cash flow information		
Taxes paid	\$306	\$676
Interest paid	\$1,176	\$592
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	\$349,815	\$242,542
Cash equivalents	\$4,793	\$83,125

The accompanying notes are an integral part of the consolidated condensed financial statements.

Catlin Group Limited

Notes to the Consolidated Condensed Financial Statements

For the Years Ended 31 December 2004 and 2003 (US Dollars in thousands, except share amounts)

1 Significant accounting policies

Basis of presentation

The accompanying consolidated condensed financial statements have been extracted from the audited consolidated financial statements of Catlin Group Limited, which are prepared in accordance with accounting principles generally accepted in the United States of America ('US GAAP').

The preparation of financial statements in conformity with US GAAP requires management to make estimates when recording transactions resulting from business operations based on information currently available. The most significant items on the Group's balance sheet that involve accounting estimates and actuarial determinations are goodwill, reinsurance recoverables, valuation of investments, deferred acquisition costs and reserves for loss and loss expenses. The accounting estimates and actuarial determinations are sensitive to market conditions, investment yields, commissions and other acquisition expenses. As additional information becomes available, or actual amounts are determinable, the recorded estimates will be revised and reflected in operating results. Although some variability is inherent in these estimates and actual results may differ from the estimates used in preparing the consolidated financial statements, the Group believes the amounts provided are reasonable.

The Group makes adjustments to convert the Lloyd's operations of Syndicates 2003 and 2600, which follow Lloyd's accounting principles, to US GAAP. Lloyd's syndicates determine underwriting results by year of account over a three year period. The Group records adjustments to recognise the ultimate underwriting results, including the expected ultimate written and earned premiums and losses incurred.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All significant inter-company transactions and balances are eliminated on consolidation.

Reporting currency

The financial information is reported in United States dollars ('US dollars' or '\$').

Investments

The Group's investments are considered to be available-for-sale and are carried at fair value. The fair value is based on the quoted market price of these securities provided by either independent pricing services, or, when such prices are not available, by reference to broker or underwriter bid indications.

Net unrealised gains or losses on investments, net of deferred income taxes, are included in accumulated other comprehensive income in stockholders' equity.

Premiums and discounts are amortised or accreted over the lives of the related fixed maturities as an adjustment to yield using the effective-interest method and is recorded in current period income. Interest income is recognised when earned. Realised gains or losses are included in earnings and are derived using the specific-identification method.

Net investment income includes interest income together with amortisation of market premiums and discounts and is net of investment management and custody fees. For mortgage-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognised prospectively.

Catlin Group Limited

Notes to the Consolidated Condensed Financial Statements

For the Years Ended 31 December 2004 and 2003 (US Dollars in thousands, except share amounts)

Other than temporary impairments

The Group regularly monitors its investment portfolio to ensure that investments that may be other than temporarily impaired are identified in a timely fashion and properly valued, and that any impairments are charged against earnings in the proper period. The Group's methodology to identify potential impairments requires professional judgment. Changes in individual security values are monitored on a monthly basis in order to identify potential problem credits. The Group's decision to make an impairment provision is based on an objective review of the issuer's current financial position and future prospects, its financial strength rating and an assessment of the probability that the current market value will recover to former levels. In assessing the recovery of market value for debt securities, the Group also takes into account the timing of such recovery by considering whether it has the ability and intent to hold the investment to the earlier of (a) settlement or (b) market price recovery. Any security whose price decrease is deemed other-than-temporary is written down to its then current market level and the cumulative net loss previously recognised in equity is removed from equity and charged to earnings. Inherently, there are risks and uncertainties involved in making these judgments. Changes in circumstances and critical assumptions such as a continued weak economy, a more pronounced economic downturn or unforeseen events which affect one or more companies, industry sectors or countries could result in additional writedowns in future periods for impairments that are deemed to be other-than-temporary. Additionally, unforeseen catastrophic events may require us to sell investments prior to the forecast market price recovery.

Short-term investments

Short-term investments are carried at fair value and are composed of securities due to mature between 90 days and one year of date of purchase.

Investment in associate

Investment in associate is composed of an investment in a limited liability corporation. This investment is accounted for using the equity method.

Cash and cash equivalents

Cash equivalents are carried at cost, which approximates fair value, and include all investments with original maturities of 90 days or less.

Premiums

Premiums written are generally recognised in accordance with the terms of the underlying policy. Premiums written are primarily earned on a daily pro rata basis over the terms of the policies to which they relate. Accordingly, unearned premiums represent the portion of premiums written which is applicable to the unexpired risk portion of the policies in force.

Reinsurance premiums assumed are recorded at the inception of the policy and are estimated based on information provided by ceding companies. The information used in establishing these estimates is reviewed and subsequent adjustments are recorded in the period in which they are determined. These premiums are earned over the terms of the related reinsurance contracts.

For multi-year policies written which are payable in annual installments, due to the ability of the insured or reinsured to commute or cancel coverage within the term of the policy, only the annual premium is included as written premium at policy inception. Annual installments are included as written premium at each successive anniversary date within the multi-year term.

Reinstatement premiums are recognised as they fall due and are earned in line with the remaining period of coverage of the original policy.

Notes to the Consolidated Condensed Financial Statements

For the Years Ended 31 December 2004 and 2003 (US Dollars in thousands, except share amounts)

Deferred acquisition costs

Certain policy acquisition costs, consisting primarily of commissions and premium taxes, that vary with and are primarily related to the production of premium, are deferred and amortised over the period in which the related premiums are earned.

A premium deficiency is recognised immediately by a charge to the Statement of Operations as a reduction of deferred acquisition costs ('DAC') to the extent that future policy premiums, including anticipation of interest income, are not adequate to recover all DAC and related losses and loss expenses. If the premium deficiency is greater than unamortised DAC, a liability will be accrued for the excess deficiency.

Unpaid losses and loss expenses

A liability is established for unpaid losses and loss expenses when insured events occur. The liability is based on the expected ultimate cost of settling the claims. The unpaid losses and loss expenses reserve includes: (1) case reserves for known but unpaid claims as of the balance sheet date; (2) incurred but not reported ('IBNR') reserves for claims where the insured event has occurred but has not been reported to the Group as of the balance sheet date; and (3) loss adjustment expense reserves for the expected handling costs of settling the claims.

Unpaid losses and loss expenses reserves are established based on amounts reported from insureds or ceding companies and according to generally accepted actuarial principles. Reserves are based on a number of factors, including experience derived from historical claim payments and actuarial assumptions to arrive at loss development factors. Such assumptions and other factors include trends, the incidence of incurred claims, the extent to which all claims have been reported, and internal claims processing charges. The process used in establishing reserves cannot be exact, particularly for liability coverages, since actual claim costs are dependent upon such complex factors as inflation, changes in doctrines of legal liability and damage awards. The methods of making such estimates and establishing the related liabilities are periodically reviewed and updated.

Deferred gain

The Group may enter into retroactive reinsurance contracts, which are contracts where an assuming company agrees to reimburse a ceding company for liabilities incurred as a result of past insurable events. Any initial gain and any benefit due from a reinsurer as a result of subsequent covered adverse development is deferred and amortised into income over the settlement period of the recoveries under the relevant contract.

Contract deposits

Contracts written by the Group which are not deemed to transfer significant underwriting and/or timing risk are accounted for as contract deposits and are included in premiums and other receivables. Liabilities are initially recorded at an amount equal to the assets received and are included in accounts payable and other liabilities.

The Group uses the risk-free rate of return of equivalent duration to the liabilities in determining risk transfer and records the transactions using the interest method. The Group periodically reassesses the estimated ultimate liability. Any changes to this liability are reflected as an adjustment to interest expense to reflect the cumulative effect of the period the contract has been in force, and by an adjustment to the future internal rate of return of the liability over the remaining estimated contract term.

Goodwill and intangible assets

Goodwill represents the excess of acquisition costs over the net fair values of identifiable assets acquired and liabilities assumed in a business combination. Pursuant to Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ('FAS 142'), goodwill is deemed to have an indefinite life and should not be amortised, but rather tested at least annually for impairment.

Notes to the Consolidated Condensed Financial Statements

For the Years Ended 31 December 2004 and 2003 (US Dollars in thousands, except share amounts)

The goodwill impairment test has two steps. The first step identifies potential impairments by comparing the fair value of a reporting unit with its book value, including goodwill. If the fair value of the reporting unit exceeds the carrying amount, goodwill is not impaired and the second step is not required. If the carrying value exceeds the fair value, the second step calculates the possible impairment loss by comparing the implied fair value of goodwill with the carrying amount. If the implied goodwill is less than the carrying amount, a writedown is recorded. The measurement of fair value of the reporting unit was determined based on an evaluation of ranges of future discounted earnings. Certain key assumptions considered include forecasted trends in revenues, operating expenses and effective tax rates.

Intangible assets are valued at their fair value at the time of acquisition. The Group's intangibles, which relate to the purchase of syndicate capacity and surplus lines licenses, are considered to have a finite life and are amortised over their estimated useful life of 15 years. The Group evaluates the recoverability of its intangible assets whenever changes in circumstances indicate that an intangible asset may not be recoverable. If it is determined that an impairment exists, the excess of the unamortised balance over the fair value of the intangible asset is charged to earnings.

Other assets

Other assets are principally composed of prepaid items and property and equipment.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of four to ten years for fixtures and fittings, four years for automobiles and two years for computer equipment. Leasehold improvements are amortised over the life of the lease or the life of the improvement, whichever is shorter. Computer software development costs are capitalised when incurred and depreciated over their estimated useful lives of five years.

Reinsurance

In the ordinary course of business, the Company's insurance subsidiaries cede reinsurance to other insurance companies. These arrangements allow for greater diversification of business and minimise the net loss potential arising from large risks. Ceded reinsurance contracts do not relieve the Group of its obligation to its insureds. Reinsurance premiums ceded are recognised and commissions thereon are earned over the period that the reinsurance coverage is provided.

Reinsurance recoverable includes the balances due from reinsurance companies for paid and unpaid losses and loss expenses that will be recovered from reinsurers, based on contracts in force. A reserve for uncollectible reinsurance has been determined based upon a review of the financial condition of the reinsurers and an assessment of other available information.

Reinsurers' share of unearned premiums represent the portion of premiums ceded to reinsurers applicable to the unexpired terms of the reinsurance contracts in force.

Reinstatement premiums are recorded as they fall due and are earned in line with the remaining period of coverage of the original policy.

Return premiums due from reinsurers are included in premiums and other receivables.

Comprehensive income/(loss)

Comprehensive income/(loss) represents all changes in equity of an enterprise that result from recognised transactions and other economic events during the period. Other comprehensive income/(loss) refers to revenues, expenses, gains and losses that are included in comprehensive income/(loss) but excluded from net income/(loss), such as unrealised gains or losses on available for sale investments and foreign currency translation adjustments.

Notes to the Consolidated Condensed Financial Statements

For the Years Ended 31 December 2004 and 2003 (US Dollars in thousands, except share amounts)

Foreign currency translation and transactions

The Group has more than one functional currency, generally the currency of the local operating environments, consistent with its operating environment and underlying cash flows. Foreign currency assets and liabilities are translated into US dollars using period end rates of exchange and the related translation adjustments are recorded as a separate component of accumulated other comprehensive income/(loss). Statement of Operations amounts expressed in foreign currencies are translated using average exchange rates for the period.

Gains and losses resulting from foreign currency transactions and translations of year-end balances not expressed in functional currencies, are recorded in current income.

Income taxes

Income taxes have been provided for on those operations that are subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the Group's assets and liabilities. Such temporary differences are primarily due to the tax basis discount on unpaid losses, adjustment for unearned premiums, the accounting treatment of reinsurance contracts, and tax benefits of net operating loss carry-forwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all or some portion of the benefits related to deferred tax assets will not be realised.

Preference shares

Convertible preference shares are recorded at fair value at the time of issuance. At the time of issuance, the fair value in excess of the shares' par value is credited to additional paid-in capital. Dividends are recognised when declared by the Company.

Stock compensation

The Group accounts for stock-based compensation arrangements under the provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ('FAS 123'). The fair value of options is calculated at the date of grant based on the Black-Scholes Option Pricing Model. The corresponding compensation charge is recognised on a straight-line basis over the option-vesting period.

Warrants

For convertible preference shares issued with detachable stock purchase warrants, the portion of the proceeds that is allocable to the warrants, is accounted for as additional paid-in capital. This allocation is based on the relative fair values of the two securities at the time of issuance. Warrant contracts are classified as equity so long as they meet all the conditions of equity outlined in EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock. Subsequent changes in fair value are not recognised in the Statement of Operations as long as the warrant contracts continue to be classified as equity.

Other income

Other income consists of managing agency fees and profit commission in respect of the Group's management of Syndicate 1003. Managing agency fees are credited in the year to which they relate. Profit commissions are earned as the related underwriting profits are recognised on an annual basis.

Pensions

The Group operates defined contribution pension schemes for eligible employees, the costs of which are expensed as incurred.

Notes to the Consolidated Condensed Financial Statements

For the Years Ended 31 December 2004 and 2003 (US Dollars in thousands, except share amounts)

Risks and uncertainties

In addition to the risks and uncertainties associated with unpaid losses and loss expenses described above and in Notes 6 and 7, cash balances, investment securities and reinsurance recoveries are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the financial statements. The cash balances and investment portfolio are managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single institution issue and issuers. The Group believes that there are no significant concentrations of credit risk associated with its investments.

New accounting pronouncements

In January 2003, the Financial Accounting Standards Board issued Interpretation 46 ('FIN 46'), Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements ('ARB 51'). FIN 46 was subsequently reissued as FIN 46-R in December 2003, with FIN 46-R providing additional interpretation of standards on consolidation. FIN 46-R clarifies the consolidation accounting guidance in ARB 51 as it applies to certain entities in which equity investors who do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entities to finance their activities without additional subordinated financial support from other parties. Such entities are known as variable interest entities ('VIEs'). FIN 46-R requires that the primary beneficiary of a VIE consolidates the VIE. FIN 46-R also requires new disclosures for significant relationships with VIEs, whether or not consolidation accounting is used or anticipated. The requirements of FIN 46-R have various implementation dates during financial years 2003 and 2004. The adoption of certain FIN 46-R requirements during 2003 and 2004 did not have an impact on the Group's financial position or results of operations.

2 Segmental information

The Group organises its business through four segments, with related supporting service and holding companies, as follows: Lloyd's Direct and Lloyd's Reinsurance; Corporate Direct and Corporate Reinsurance. This segmentation follows management's internal reporting structure. For the year ended December 31, 2003, these segments correspond to the location of where the business was written, with Lloyd's Direct and Lloyd's Reinsurance being written in the UK and Corporate Direct and Corporate Reinsurance being written in Bermuda. For the year ended December 31, 2004, the portion of the business written by the UK Branch of CICL, which is included in Corporate Direct and Corporate Reinsurance, was also written in the UK. As a result, total gross premium written in the UK before intra-Group reinsurance was \$1,281,259, with the remaining gross premium written in Bermuda.

Catlin Group Limited

Notes to the Consolidated Condensed Financial Statements

For the Years Ended 31 December 2004 and 2003 (US Dollars in thousands, except share amounts)

Net income before tax by operating segment before intra-Group reinsurance eliminations for the year ended 31 December 2004 is as follows:

	Lloyd's Direct	Lloyd's Reinsurance	Corporate Direct	Corporate Reinsurance	Intra-Group eliminations	Total
Gross premiums written	\$870,363	\$211,185	\$225,256	\$217,268	\$(90,236)	\$1,433,836
Reinsurance premiums ceded	(209,779)	(28,911)	(36,194)	(2,683)	90,236	(187,331)
Net premiums written	660,584	182,274	189,062	214,585	-	1,246,505
Net premiums earned	644,367	181,805	91,082	243,856	-	1,161,110
Losses and loss expenses	(354,783)	(105,623)	(55,044)	(144,987)	-	(660,437)
Policy acquisition costs	(213,495)	(41,503)	(23,864)	(38,822)	14,893	(302,791)
Administrative expenses	(31,796)	(8,971)	(4,494)	(12,033)	-	(57,294)
Other expenses	(6,499)	(1,833)	(918)	(2,459)	(14,893)	(26,602)
Net underwriting result	37,794	23,875	6,762	45,555	-	113,986
Net investment income and net realised gains on investments	27,932	7,881	3,949	10,570	-	50,332
Net realised gains on foreign currency exchange	4,920	1,388	695	1,862	-	8,865
Other income	421	119	60	159	-	759
Income before income tax expense	\$71,067	\$33,263	\$11,466	\$58,146	\$-	\$173,942
Total revenue	\$677,640	\$191,193	\$95,786	\$256,447	\$-	\$1,221,066

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Net income before tax by operating segment before intra-Group reinsurance eliminations for the year ended 31 December 2003 is as follows:

	Lloyd's Direct	Lloyd's Reinsurance	Corporate Direct	Corporate Reinsurance	Intra-Group eliminations	Total
Gross premiums written	\$906,250	\$234,991	\$4,359	\$253,683	\$(201,069)	\$1,198,214
Reinsurance premiums ceded	(261,151)	(52,637)	(361)	-	201,069	(113,080)
Net premiums written	645,099	182,354	3,998	253,683	-	1,085,134
Net premiums earned	528,340	152,268	2,337	162,002	-	844,947
Losses and loss expenses	(271,696)	(59,018)	(712)	(93,199)	-	(424,625)
Policy acquisition costs	(196,721)	(43,978)	(320)	(21,286)	12,194	(250,111)
Administrative expenses	(27,308)	(7,871)	(121)	(8,374)	-	(43,674)
Other expenses	(1,887)	(543)	(8)	(578)	(12,194)	(15,210)
Net underwriting result	30,728	40,858	1,176	38,565	-	111,327
Net investment income and net realised gains on investments	15,600	4,495	69	4,783	-	24,947
Net realised gains on foreign currency exchange	6,268	1,806	28	1,922	-	10,024
Other income	32	10	-	10	-	52
Income before income taxes	\$52,628	\$47,169	\$1,273	\$45,280	-	\$146,350
Total revenue	\$550,240	\$158,579	\$2,434	\$168,717	-	\$879,970

Total revenue is the total of net premiums written, net investment income and net realised gain/(loss) on investments, net realised gain/(loss) on foreign currency exchange, and other income.

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3 Investments

Fixed maturities

The fair values and amortised costs of fixed maturities at 31 December 2004 and 2003 are as follows:

	2004		2003	
	Fair value	Amortised cost	Fair value	Amortised cost
US government and agencies	\$741,900	\$728,857	\$390,865	\$385,316
Non-US governments	140,768	140,737	36,916	36,814
Corporate securities	301,601	302,889	190,847	190,542
Asset-backed securities	267,929	268,531	137,277	137,379
Total fixed maturities	\$1,452,198	\$1,441,014	\$755,905	\$750,051

The carrying value of fixed maturities at 31 December 2004 and 2003 was the same as their fair value.

The gross unrealised gains and losses related to fixed maturities at 31 December 2004 and 2003 are as follows:

	2004		2003	
	Gross unrealised gains	Gross unrealised losses	Gross unrealised gains	Gross unrealised losses
US government and agencies	\$13,786	\$743	\$5,686	\$137
Non-US governments	418	387	110	8
Corporate securities	316	1,604	496	191
Asset-backed securities	189	791	132	234
Total fixed maturities	\$14,709	\$3,525	\$6,424	\$570

There were no other than temporary declines in the value of investments in the year to 31 December 2004 or 2003. The net realised gains/(losses) on fixed maturities for the year ended 31 December 2004 were \$3,429 (2003: \$1,071).

The following is an analysis of how long each of the fixed maturities that were in an unrealised loss position as at 31 December 2004 had been in a continual loss position. This information concerns the potential effect upon future earnings and financial position should management later conclude that some of these current unrealised losses represent other than temporary declines in the value of the securities.

	Less than 12 months		Equal to or greater than 12 months	
	Market value	Gross unrealised losses	Market value	Gross unrealised losses
US government and agencies	\$387,336	\$705	\$5,357	\$38
Non-US governments	58,337	387	-	-
Corporate securities	204,719	1,243	35,271	361
Asset-backed securities	104,881	726	9,261	65
Total fixed maturities	\$755,273	\$3,061	\$49,889	\$464

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Fixed maturities at 31 December 2004, by contractual maturity, are shown below. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

	Fair value	Amortised cost
Due in one year or less	\$126,494	\$126,831
Due after one through five years	538,825	540,121
Due after five years through ten years	517,258	503,842
Due after ten years	1,692	1,689
	1,184,269	1,172,483
Asset-backed securities	267,929	268,531
Total	\$1,452,198	\$1,441,014

Restricted assets

The Group is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions. These funds on deposit are available to settle insurance and reinsurance liabilities. The Group also has investments in segregated portfolios primarily to provide collateral or guarantees for Letters of Credit ('LOC'), as described in Note 6. Finally, the Group also utilises trust funds where the trust funds are set up for the benefit of the ceding companies, and generally take the place of LOC requirements.

The total value of these restricted assets by category at 31 December 2004 and 2003 are as follows:

	2004	2003
Fixed maturities, available for sale	\$607,571	\$348,215
Short term investments	19,146	126,943
Cash and cash equivalents	119,401	104,336
Total restricted assets	\$746,118	\$579,494

4 Unpaid losses and loss expenses

The Group establishes reserves for losses and loss adjustment expenses, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. The process of establishing reserves continues to be complex and imprecise, requiring the use of informed estimates and judgments. The Group's estimates and judgments may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed or as current laws change. Any such revisions could result in future changes in estimates of losses or reinsurance recoverable, and would be reflected in the Group's results of operations in the period in which the estimates are changed. Management believes they have made a reasonable estimate of the level of reserves at 31 December 2004 and 2003.

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The reconciliation of unpaid losses and loss expenses for the years ended 31 December 2004 and 2003 is as follows:

	2004	2003
Gross unpaid losses and loss expenses, beginning of year	\$962,535	\$695,168
Reinsurance recoverable on unpaid loss and loss expenses	(242,187)	(214,174)
Net unpaid losses and loss expenses beginning of year	720,348	480,994
Net incurred losses and loss expenses for claims related to:		
Current year	698,706	391,995
Prior years	(38,269)	32,630
Total incurred losses and loss expenses	660,437	424,625
Net paid losses and loss expenses for claims related to:		
Current year	(94,432)	(49,189)
Prior year	(281,483)	(166,447)
Total paid losses and loss expenses	(375,915)	(215,636)
Loss portfolio transfer of remaining net liability in Syndicate 1003	66,926	-
Foreign exchange adjustment	41,869	30,365
Net unpaid losses and loss expenses end of year	1,113,665	720,348
Reinsurance recoverable on unpaid loss and loss expenses	359,154	242,187
Gross unpaid losses and loss expenses, end of year	\$1,472,819	\$962,535

In 2004, net incurred losses and loss expenses for claims related to the current year include \$114,616 of net losses incurred as a result of the four hurricanes (Charley, Frances, Ivan and Jeanne) that caused extensive damage in the Caribbean and the Southeastern United States during the second half of 2004.

As a result of the changes in estimates of insured events in prior years, the 2004 provision for losses and loss expenses net of reinsurance recoveries decreased by \$38,629 (2003: increase of \$32,630). In 2004, the decrease was due to changes in estimates of insured events in prior years. In 2003, the increase was a result of higher than expected frequency and average cost of claims in the legal expenses class of business, which is no longer written by the Group.

Closure of Lloyd's Syndicate 1003

Syndicate 1003, which was capitalised by external Names and managed by Catlin Underwriting Agencies Ltd., ceased writing new business with the 2002 underwriting year. The remaining net liability in Syndicate 1003, calculated as \$66,926 as at 31 December 2004, was assumed by Syndicate 2003 as at 31 December 2004. This will be settled through a payment in the form of cash and investments in the same amount, which is carried in premiums and other receivables at year end. The transaction has been treated as a loss portfolio transfer, recorded as an increase in loss reserves with no impact on the Consolidated Statement of Operations. To the extent that the future run-off of this portfolio differs from the recorded amount, that development will be recorded in the Consolidated Statement of Operations in the period that it is incurred.

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5 Reinsurance

The Group purchases reinsurance to limit various exposures including catastrophe risks. Although reinsurance agreements contractually obligate the Group's reinsurers to reimburse it for the agreed upon portion of its gross paid losses, they do not discharge the primary liability of the Group. The effect of reinsurance and retrocessional activity on premiums written and earned is as follows:

		2004		2003
	Premiums written	Premiums earned	Premiums written	Premiums earned
Direct	\$1,095,619	\$1,011,421	\$910,608	\$763,234
Assumed	338,217	326,889	287,606	219,433
Ceded	(187,331)	(177,200)	(113,080)	(137,720)
Net premiums	\$1,246,505	\$1,161,110	\$1,085,134	\$844,947

The Group's provision for reinsurance recoverable as of the years ended December 31, 2004 and 2003 is as follows:

	2004	2003
Gross reinsurance recoverable	\$409,809	\$301,322
Provision for uncollectible balances	(18,864)	(14,157)
Net reinsurance recoverable	\$390,945	\$287,165

6 Notes payable, debt and financing arrangements

Notes payable as at 31 December 2004 and 2003 consisted of the following:

	2004	2003
Drawdown under 364-day revolving bank facility, at three-month Libor plus 75 basis points (2003: 85), due 18 February 2005 (2003: 23 February 2004)	\$50,187	\$50,107
Total notes payable	\$50,187	\$50,107

Bank facilities

In November 2004, the Group entered into a Letter of Credit/Revolving Loan Facility (the 'Club Facility'), consisting of three tranches. The following was outstanding under the Club Facility as at 31 December 2004 under each of the three tranches:

- Debt outstanding was \$50 million, in the form of a 364-day \$50 million revolving facility with a one year term-out option. This facility was reduced from \$100 million to \$50 million in August 2004. It represents an unsecured loan to Catlin Group Limited; however, the facility is secured by cross guarantees of material subsidiaries. This debt bears interest at three-month Libor plus 75 basis points, reduced from 85 basis points in November 2004, and the Group is required to maintain free and unencumbered assets consisting of OECD Government Bonds, US Agencies and Corporate Bonds, discounted by 10%, sufficient to repay the loan at any time. The undrawn portion of the facility costs 35 basis points per annum. This loan, which is available under one, two or three month renewal periods, can be repaid at any time at the discretion of the Group in increments of \$10 million. The Group has the option to convert all cash advances into a term loan with a final maturity date of no later than 18 November 2006.
- As security for its underwriting, a clean, irrevocable standby LOC of \$240,000 (£125,000) is available for utilisation. As at 31 December 2004, CSL has deposited with Lloyd's an LOC

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amounting to \$224,736 (£117,050). In the event of the Group's failing to meet its obligations under policies of insurance written on its behalf, Lloyd's may draw down this letter of credit. This LOC became effective on 18 November 2004 and has an initial expiry date of 17 November 2008. In addition, CICL UK Branch benefits from the issuance of a LOC amounting to \$2,047 (£1,066). Collateral of \$54,720 million (£28,500) must be provided by 20 June 2005 and a further \$36,480 million (£19,000) by 30 June 2006.

- There are two Standby LOC facilities available for utilisation by CICL Bermuda and its UK Branch, a two-year \$50 million facility and a second one-year \$50 million facility. At 31 December 2004, \$27,234 in LOC's were outstanding, all of which are issued by CICL Bermuda. Collateral of 110% of 50% of the face value of the utilised portion of the LOCs under both Standby facilities must be provided.

The terms of the Club Facility require that certain financial covenants be met on a quarterly basis through the filing of Compliance Certificates. These include maximum levels of possible exposures to realistic disaster scenarios for the Group, as well as requirements to maintain minimum Tangible Net Worth and Adjusted Tangible Net Worth levels, the calculations of which are based upon fixed amounts in 2004 and increase over time, for items such as consolidated net income in future accounting periods. The Group was in compliance with all covenants during 2004.

7 Taxation

Under current Bermuda law, the Company and its Bermuda subsidiary, CICL, are not required to pay any taxes in Bermuda on their income or capital gains. The Company and CICL have received an undertaking from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, the Company and CICL will be exempt from taxation in Bermuda until March 2016.

CICL also operates in the UK through its UK branch. The income of the UK branch is subject to UK corporation taxes.

Income from the Group's operations at Lloyd's is subject to UK corporation taxes. Lloyd's is required to pay US income tax on US connected income ('US income') written by Lloyd's syndicates. Lloyd's has a closing agreement with the IRS whereby the amount of tax due on this business is calculated by Lloyd's and remitted directly to the Internal Revenue Service. These amounts are then charged to the personal accounts of the Names and Corporate Members in proportion to their participation in the relevant syndicates. The Group's Corporate Member is also subject to this arrangement but, as a UK domiciled company, will receive UK corporation tax credits for any US income tax incurred up to the value of the equivalent UK corporation income tax charge on the US income.

The Group, through its US operations, is subject to income taxes imposed by US authorities and is required to file US tax returns. Certain international operations of the Group are also subject to income taxes imposed by the jurisdictions in which they operate.

The Group is not subject to taxation other than as stated above. There can be no assurance that there will not be changes in applicable laws, regulations or treaties, which might require the Group to change the way it operates or become subject to taxation.

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8 Stockholders' equity

The following is a detail of the number and par value of common shares authorised, issued and outstanding as of 31 December 2004 and 2003:

2004

	Number of shares	Authorised Par value	Issued and outstanding Number of shares	Par value
Ordinary common shares, par value \$0.01 per share	250,000,000	\$2,500	154,097,989	\$1,541
Total	250,000,000	\$2,500	154,097,989	\$1,541

2003

	Number of shares	Authorised Par value	Issued and outstanding Number of shares	Par value
Ordinary common shares, par value \$0.01 per share	300,000,000	\$30	75,109,082	\$8
Total	300,000,000	\$30	75,109,082	\$8

The following table outlines the changes in common shares issued and outstanding during 2004 and 2003:

Balance, 1 January 2003	75,000,000
Movements during 2003:	
Ordinary common shares cancelled	(1,000,000)
Ordinary common shares issued	1,109,082
Balance, 31 December 2003	75,109,082
Movements during 2004:	
Payment of payment-in-kind ('PIK') dividend	42,195,965
Redesignation of preference shares	497,000,000
Cancellation of options and replacement with ordinary common shares	154,576
Total ordinary common shares before the effect of both the 19-1 bonus issue and the subsequent 100-1 consolidation	614,459,623
Total ordinary common shares after effect of both the 19-1 bonus issue and the subsequent 100-1 consolidation	122,891,925
New ordinary common shares issued in the IPO	31,180,000
Ordinary common shares issued after the IPO	26,064
Balance, 31 December 2004	154,097,989

On 6 April 2004, the Group completed the IPO and was admitted to the official list of the London Stock Exchange plc. Immediately prior to admission, certain changes to the Company's capital structure took place. Accrued dividends on preference shares were settled through the issuance of additional common shares and a small number of share options were cancelled and replaced with common shares. All preference shares were then converted into common shares and were consolidated on a five-to-one basis, achieved through a 19-to-1 bonus issuance and a 100-to-1 share consolidation.

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The Group raised \$200,472 (\$182,627 net of expenses) through the issuance of 31,180,000 new shares. In addition, as part of the IPO, existing shareholders sold a further 23,380,000 shares.

As a result, immediately following the capital changes and the IPO, the Company had 154,071,925 common shares issued and outstanding. To maintain economic equivalence, the warrants and stock options that were outstanding at the time of the IPO were also consolidated on a five-to-one basis and their exercise prices increased by a factor of five.

On 15 November 2004, the Group paid an interim dividend of \$0.079 per share (£0.043 per share) to shareholders of record as of 15 October 2004.

9 Subsequent events

Renewal of loan

On 18 February 2005, the Group renewed its drawdown of \$50 million under its 364-day revolving bank facility. This drawdown matures on 18 May 2005.

Proposed dividend

On 10 March 2005, the Board approved a proposed final dividend of \$0.156 (£0.081) per share, payable on 31 May 2005 to shareholders of record at the close of business on 29 April 2005. The final dividend is determined in US dollars but payable in sterling based on the exchange rate of £1=\$1.93 on 9 March 2005.

Catlin Insurance Company (UK) Ltd

On 7 March 2005, the FSA advised the Group that it is minded to grant the application from Catlin Insurance Company (UK) Ltd. to convert Catlin UK from a branch into a subsidiary of Catlin Bermuda, subject to certain conditions, particularly the capitalisation of the new company.

Performance Share Plan

On 1 February 2005, the Board approved the form of the Performance Share Plan ('PSP'), which permits the grant of awards in the form of options to acquire common shares at a nil exercise price, subject to achievement of performance conditions that are calibrated to shareholder returns. The first awards will be made to employees during 2005.

An expense for the cost of the PSP will be included beginning with the Group's half year 2005 consolidated financial statements. It will be calculated using the fair value method of accounting, in accordance with the Group's accounting policy for stock-based employee compensation.

10 Reconciliation to UK GAAP

The Group's consolidated financial statements are prepared in accordance with US GAAP, which differs in certain respects from UK GAAP.

The following statements summarise the material adjustments, gross of their tax effect, which reconcile the net income attributable to group stockholders and the stockholders' equity under US GAAP to the amounts which would have been reported had UK GAAP been applied.

Beginning in 2005, UK listed companies will adopt International Financial Reporting Standards ('IFRS'). Therefore, also beginning in 2005, the Group will present a reconciliation of net income and stockholders' equity under US GAAP to the amounts that would have been reported had IFRS, and not UK GAAP, been applied.

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Net income	Note	Year ended 31 December	
		2004	2003
Net income under US GAAP		\$154,056	\$127,013
Adjustment for:			
Deferral of acquisition costs	(a)	-	(6,002)
Stop loss accounting	(b)	(10,811)	(6,133)
Goodwill amortisation	(c)	(3,610)	(3,396)
Translation differences	(d)	(1,245)	(6,864)
Unrealised appreciation on investments	(e)	5,254	3,697
Deposit accounting	(f)	946	-
Taxation	(g)	(1,690)	6,198
Profit / (loss) after taxation under UK GAAP		142,900	114,513
Payment in kind dividend	(h)	-	(28,911)
Retained profit under UK GAAP		\$142,900	\$85,602

Stockholders' equity	Note	At 31 December	
		2004	2003
Stockholders' equity under US GAAP		\$971,187	\$638,637
Adjustment for:			
Stop loss accounting	(b)	18,278	29,089
Goodwill amortisation	(c)	(10,105)	(6,495)
Deposit accounting	(f)	946	-
Taxation	(g)	(10,417)	(8,727)
Stockholders' equity under UK GAAP		\$969,889	\$652,504

- (a) Under US GAAP, the Group's accounting policy for DAC defers only those costs directly associated with acquisition of policies, primarily commissions and other premium levies. Under UK GAAP, the Group applied a broader definition of DAC such that, in addition to costs deferred under US GAAP, certain other operating costs were deferred. The Group followed this approach under UK GAAP for all financial years up to and including 2002. From 2003 onwards, the Group's accounting treatment for DAC under UK GAAP was adjusted to be entirely consistent with its US GAAP treatment.
- (b) Under US GAAP, the whole account stop loss contract, purchased by Syndicate 2003 to protect underwriting years up to and including 2001, has been accounted for as a deposit due to its retroactive nature, in accordance with SFAS 113. As a result, the indemnity amount due under the contract is treated as a deferred gain to be released to income as recoveries are made from the reinsurer. Under UK GAAP, this contract has been accounted for as reinsurance and therefore the full indemnity amount has been recognised as a reinsurance recovery in 2001. No deferred gain is recognised in the UK GAAP balance sheet, resulting in a corresponding increase in stockholders' equity.
- (c) Under US GAAP, goodwill has not been amortised in accordance with the provisions of SFAS 142, starting with its implementation in 2002. Prior to 2002, goodwill was being amortised over 20 years. Under UK GAAP, this goodwill is amortised on a straight line basis over a period of ten years. This results in US GAAP stockholders' equity exceeding that applicable under UK GAAP with effect from the 2002 year.
- (d) Translation differences on the translation of functional currency assets and liabilities into US dollars are recognised in other comprehensive income under US GAAP. Under UK GAAP, these items are reflected as part of the profit or loss for the financial year. While the different treatment of these items affects reported profit under UK GAAP, there is no effect on total stockholders' equity.

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- (e) Unrealised appreciation/(depreciation) on investments is recognised in other comprehensive income under US GAAP. Under UK GAAP, this is reflected as part of the profit or loss for the financial year. While the different treatment of these items affects reported profit under UK GAAP, there is no effect on total stockholders' equity.
- (f) Under US GAAP certain contracts written by the Group are deposit accounted because there is no insurance risk transfer. Under UK GAAP deposit accounting is not applied and these contracts are accounted for on a prospective basis.
- (g) All of the reconciling items are presented before tax. This line item represents the tax effect of all of the reconciling items.
- (h) Under US GAAP, this dividend does not affect income or stockholders' equity, being paid as an issue of new capital. Under UK GAAP, the dividend is treated as an expense in the statement of operations, offset by a specific appropriation of stockholders' equity. Accordingly, there is no difference in total stockholders' equity between US and UK GAAP.