CATLIN

Underwriting Ambition

Building a Business for the Future

Catlin Group Limited

Half-yearly Financial Report

2011

Catlin Group Limited is an international specialty property/casualty insurer and reinsurer.

Since Catlin was established in 1984, we have retained a consistent vision, strategy and set of core values so that our decisions and actions help build a business for the future.

Highlights

- US$534 million in losses from catastrophe events during the period, net of reinsurance and reinstatement premiums (30 June 2010: US$135 million)
- Negative net underwriting contribution of US$91 million (30 June 2010: US$227 million net underwriting contribution)
- 50 per cent attritional loss ratio (30 June 2010: 51 per cent)
- 9 per cent increase in gross premiums written to US$2.7 billion (30 June 2010: US$2.5 billion)
- 4 per cent decrease in gross premiums written for London/UK underwriting hub, 26 per cent aggregate increase for all other hubs
- 12 per cent increase in net premiums earned to US$1.8 billion (30 June 2010: US$1.6 billion)
- 117 per cent combined ratio; 32 percentage points relate to catastrophe losses (30 June 2010: 98 per cent combined ratio; 9 percentage points related to catastrophe losses)
- US$201 million loss before tax (30 June 2010: US$86 million profit)
- 5 per cent increase in interim dividend to 9.0 pence per share (30 June 2010: 8.6 pence)
- Catastrophe losses during second half or deterioration in previous 2011 catastrophe estimates likely to trigger Catastrophe Aggregate reinsurance protection

Key Financial Data

US$m except as noted	30 June 2011	30 June 2010
Gross premiums written	**2,683**	2,461
Net premiums written	**2,269**	1,893
Net premiums earned	**1,763**	1,572
Net underwriting contribution[1]	**(91)**	227
Total investment return	**119**	140
Net (loss)/income before income taxes	**(201)**	86
Net (loss)/income to common stockholders	**(220)**	57
Earnings per share (US dollars)	**(0.64)**	0.17
Interim dividend per share (pence)	**9.0**	8.6
Loss ratio	**85.0%**	64.9%
Expense ratio[2]	**31.5%**	32.6%
Combined ratio[2]	**116.5%**	97.5%
Total investment return	**1.5%**	1.8%
Return on net tangible assets for period[3]	**(9.8%)**	2.8%
Return on equity for period[3]	**(7.7%)**	2.1%

US$m except as noted	30 June 2011	31 Dec 2010	30 June 2010
Total assets	**$13,288**	$12,082	$12,063
Investments and cash	**$8,256**	$8,021	$7,536
Stockholders' equity	**$3,121**	$3,448	$3,194
Unearned premiums	**$2,549**	$1,886	$2,251
Net tangible assets per share (sterling)[4]	**£3.44**	£4.24	£3.88
Net tangible assets per share (US dollars)[4]	**$5.54**	$6.53	$5.78
Book value per share (sterling)[4]	**£4.57**	£5.41	£5.09
Book value per share (US dollars)[4]	**$7.35**	$8.34	$7.58

[1] Net underwriting contribution is defined as net premiums earned less losses and loss expenses and policy acquisition costs

[2] The expense ratio and the combined ratio include policy acquisition costs and most administrative expenses. These ratios exclude profit-related bonuses, share option scheme costs and certain other Group corporate costs

[3] Returns on net tangible assets and equity exclude preferred shares and are calculated by reference to opening balances

[4] Book value and net tangible book value per share exclude preferred shares and treasury shares

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The unprecedented series of natural catastrophes which occurred in the first six months of 2011 demonstrates the value of the products which Catlin provides. It is Catlin's job to provide financial protection to policyholders and quickly pay these types of claims when they arise.

The Group incurred catastrophe-related losses amounting to US$534 million, net of reinsurance and reinstatement premiums, during the first six months of 2011 (30 June 2010: US$135 million). The catastrophe losses caused the Group to report a loss before tax of US$201 million (30 June 2010: US$86 million profit before tax).

However, Catlin's underlying performance during the first half of 2011 was strong. The first-half attritional loss ratio – which excludes the impact of catastrophe losses, large single-risk losses and prior year reserve movements – decreased to 50.0 per cent, the lowest in five years (30 June 2010: 50.7 per cent). This reflects Catlin's portfolio management skills during a period of rate competition for most classes of business. In addition, our US and International underwriting hubs, in which the Group has made a significant investment, continued to produce positive underwriting contributions.

We are optimistic about the Group's prospects for the second half of the year. Additional catastrophe losses – or any meaningful deterioration of loss estimates relating to the previous catastrophes – will likely trigger recoveries from the Group's Catastrophe Aggregate programme, which would significantly reduce the financial impact on the Group. In addition, rates for Property Treaty reinsurance increased meaningfully for most programmes during 1 June and 1 July renewals. We expect that Property Treaty reinsurance rates will continue to increase during the second half and into 2012, which will trigger rate increases for classes of Property insurance. Signs of rate hardening in primary Property classes are already emerging.

Dividend

The Board of Directors has declared an interim dividend of 9.0 pence per share (14.7 US cents), payable on 23 September 2011 to shareholders of record on 26 August 2011. This represents a 5 per cent increase over the 2010 interim dividend of 8.6 pence per share (13.7 US cents), reflecting the Board's confidence in Catlin's strategy and future prospects.

Since the Group's initial public offering in 2004, the interim dividend has increased by 140 per cent per share (adjusted for the impact of the 2009 Rights Issue).

Financial Review

Gross premiums written and net premiums earned

Gross premiums written for the six months ended 30 June 2011 increased by 9 per cent to US$2.7 billion (30 June 2010: US$2.5 billion). Gross premiums written by the Bermuda, US and International underwriting hubs increased, whilst the Group continued to reduce gross premium volume in the London/UK hub in the light of competitive market conditions for many classes of London market wholesale business. Gross premiums written by the London/UK hub in the first half have decreased for four consecutive years as the Group continues to manage this portfolio to retain overall rate adequacy.

Net premiums earned increased by 12 per cent to US$1.8 billion (30 June 2010: US$1.6 billion). The increase is due to ongoing growth in gross premiums written as well as reduced ceded reinsurance premiums during the period.

Detailed analysis of the premium volume underwritten by each hub is contained in the Underwriting Review.

Losses and loss expenses
Losses and loss expenses increased by 47 per cent to US$1.5 billion (30 June 2010: US$1.0 billion), which reflects the US$534 million in catastrophe losses, net of reinsurance and reinstatement premiums, sustained by the Group in the first half. The increase in the loss ratio to 85.0 per cent (30 June 2010: 64.9 per cent) reflects the catastrophe loss ratio of 32.4 per cent (30 June 2010: 9.3 per cent).

More information regarding loss experience can be found in the Underwriting Review.

There was no release from prior year loss reserves during the period ended 30 June 2011, reflecting the Group's cautious approach to reserving at this stage in the underwriting cycle.

Historically, the Group has made significantly smaller reserve releases from prior year loss reserves at 30 June as compared with 31 December. The following table shows the releases made by the Group at each of these dates in recent years as well as the total release for the year.

US$m	Reserve release in first half	Reserve release in second half	Total reserve release for year
2011	0	–	–
2010	29	115	144
2009	39	55	94
2008	72	46	118
2007	15	124	139
2006	4	13	17
2005	3	91	94
2004	16	22	38

Net investment return
Total investment return for the period, excluding investment expenses, was 1.5 per cent (30 June 2010: 1.8 per cent) and amounted to US$119 million (30 June 2010: US$140 million). After deducting investment expenses, net investment return amounted to US$115 million (30 June 2010: US$137 million).

Commentary regarding investment performance and strategy can be found in the Investment Review.

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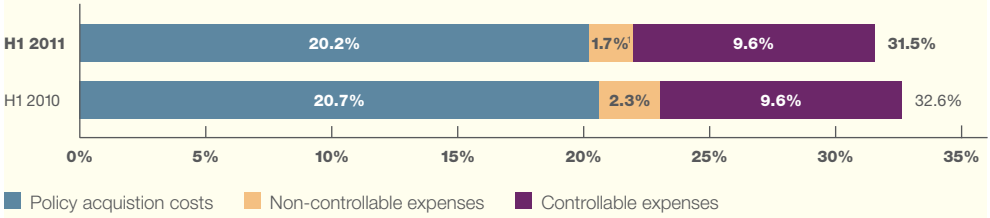
Net gain on foreign currency
The Group reported a US$15 million net gain on foreign currency exchange (30 June 2010: US$49 million net loss). The gain comprises US$8 million arising from non-monetary items held at historic rates and US$7 million reflecting exchange movements on currency positions.

Policy acquisition costs, administrative and other expenses
The Group's expense ratio decreased to 31.5 per cent during the first half of 2011 (30 June 2010: 32.6 per cent). An analysis of the major components of the expense ratio is shown in the chart below.

Chart 1:
Components of expense ratio (%)



1 Includes non-recurring refunds from Lloyd's

Non-controllable expenses include Lloyd's charges and personal performance bonuses. The decrease in the non-controllable expenses component of the expense ratio during the period arose from non-recurring refunds from Lloyd's.

Other expenses – which include profit-related bonuses, employee share schemes and certain Group corporate expenses – are not included in the expense ratio. Other expenses were equivalent to 2.0 percentage points of the expense ratio during the period (30 June 2010: 2.0 per cent).

Net (loss)/profit before income taxes and to common stockholders
The Group produced a net loss before income taxes of US$201 million for the six months ended 30 June 2011 (30 June 2010: US$86 million income). However, the Group produced net profit before tax of US $72 million during the second quarter of 2011 (second quarter 2010: US$56 million).

The net loss to common stockholders was US$220 million (30 June 2010: US$57 million income). The table below analyses the major components of net (loss)/income to common stockholders.

US$m	**30 June 2011**	30 June 2010
Net underwriting contribution	**(91)**	227
Total investment return	**119**	140
Administrative expenses – controllable	**(169)**	(151)
Administrative expenses – non-controllable	**(30)**	(36)
Other expenses	**(36)**	(32)
Financing and other	**(9)**	(13)
Foreign exchange	**15**	(49)
(Loss)/profit before tax	**(201)**	86
Income tax credit/(expense)	**3**	(7)
Net (loss)/income	**(198)**	79
Preferred share dividend	**(22)**	(22)
Net (loss)/income to common stockholders	**(220)**	57

The Group produced a negative return on net tangible assets of 9.8 per cent during the period (30 June 2010: 2.8 per cent positive return). The negative return on equity was 7.7 per cent during the period (30 June 2010: 2.1 per cent positive return).

Balance sheet

Stockholders' equity decreased by 9 per cent to US$3.1 billion at 30 June 2011 (31 December 2010: US$3.4 billion). Movements in stockholders' equity during the first half of 2011 are analysed in the table below.

US$m	
Stockholders' equity – 1 January 2011	3,448
Net loss	(198)
Employee share plan stock purchase	(5)
Common share dividends	(99)
Preferred share dividends and other	(25)
Stockholders' equity – 30 June 2011	3,121

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Capital

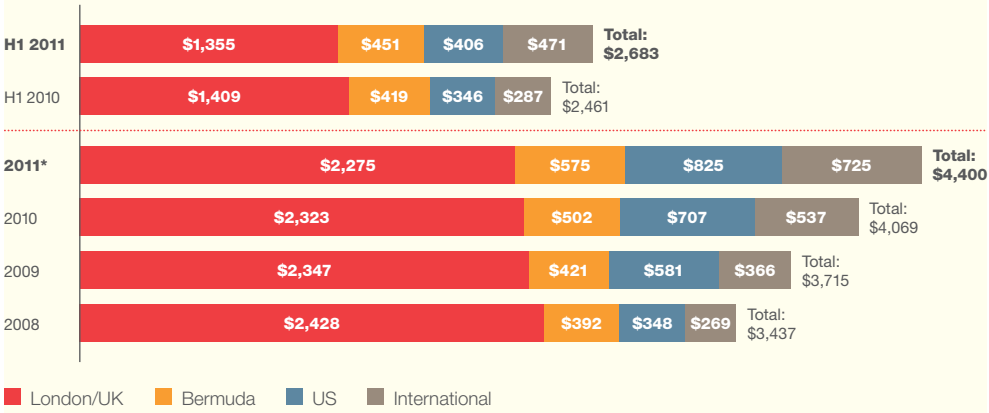
At 31 December 2010 the Group maintained a buffer to economic capital requirements of 20 per cent. A portion of that buffer was eroded by the catastrophe losses during the first half of 2011 as well as by common and preferred share dividend payments. However, Catlin continues to have a robust capital base in place for the remainder of 2011. The Group has attracted additional third-party capital support for certain parts of its risk portfolio for the remainder of 2011 and 2012, and it will continue to explore additional third-party capital options appropriate to the opportunities available in the market.

Underwriting Review

Premium volume

The chart below shows the development of the gross premiums written by reporting segment during prior periods as well as an estimate of gross premiums written for the full year 2011.

Chart 2:
Gross premiums written by reporting segment (US$m)



*Estimate

Catlin continued to reduce the size of its London wholesale portfolio amid competitive pressures for many classes of business, resulting in a 4 per cent reduction in gross premiums written by the London/UK hub to US$1.36 billion (30 June 2010: US$1.41 billion). The 8 per cent increase in gross premiums written by the Bermuda hub to US$451 million (30 June 2010: US$419 million) was largely the result of reinstatement premiums paid by cedants following the first-half catastrophe events.

The 17 per cent increase in gross premiums written by the US hub to US$406 million (30 June 2010: US$346 million) is the result of increased new business written by underwriting teams recruited by Catlin during recent years as well as strong retention of existing business.

Gross premiums written by Catlin's International hubs increased by 64 per cent to US$471 million (30 June 2010: US$287 million). An analysis of the gross premiums written by the three underwriting hubs (Asia-Pacific, Europe and Canada) that make up the International reporting segment is shown in the table below.

US$m	**30 June 2011**	30 June 2010	30 June 2009	30 June 2008
Asia-Pacific	**159**	118	68	50
Europe	**253**	124	92	84
Canada	**59**	45	27	24
Total	**471**	287	187	158

The increase in gross premiums written by the Asia-Pacific, European and Canadian hubs is the result of the establishment of new offices and underwriting teams in all three hubs over the past several years. The 104 per cent increase in gross premiums written by the European hub is largely attributable to the successful start-up of Zurich-based Catlin Re Switzerland in the first half of 2011; the vast majority of this business had not been previously written by other Group hubs.

Loss experience

The four severe catastrophes which occurred in the first half of the year – the flooding in Brisbane, Australia, in January; the earthquake which devastated Christchurch, New Zealand in February; the Japanese earthquake and tsunami in March; and tornadoes in the United States in April and May – has made the first half of 2011 the worst on record in terms of insured catastrophe losses.

Munich Re estimates that the insurance industry faces a total of US$60 billion in losses from these events, which is nearly five times greater than average first-half catastrophe losses over the past ten years. Some other analysts believe that total insured losses from these events could reach US$70 billion or more. Catastrophe loss experience in the first half of the year is generally benign compared with the second half, which includes losses arising from North Atlantic hurricanes and Western Pacific typhoons.

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Catlin's share of the first-half catastrophe losses amounts to an estimated US$534 million, net of reinsurance and reinstatement premiums. The estimates for each of the events are shown in the table below.

US$m	**Estimate at 30 June 2011**[1]	% of capital available for underwriting at 31 December 2010[2]
Australian flood	**46**	1.6%
New Zealand earthquake	**173**	6.1%
Japanese earthquake	**200**	7.1%
US tornadoes	**115**	4.1%
	534	18.9%

[1] Net of reinsurance and reinstatement premiums
[2] Capital available for underwriting amounted to US$2.8 billion at 31 December 2010, defined as total stockholders' equity (including preferred shares), less intangible assets net of associated deferred tax

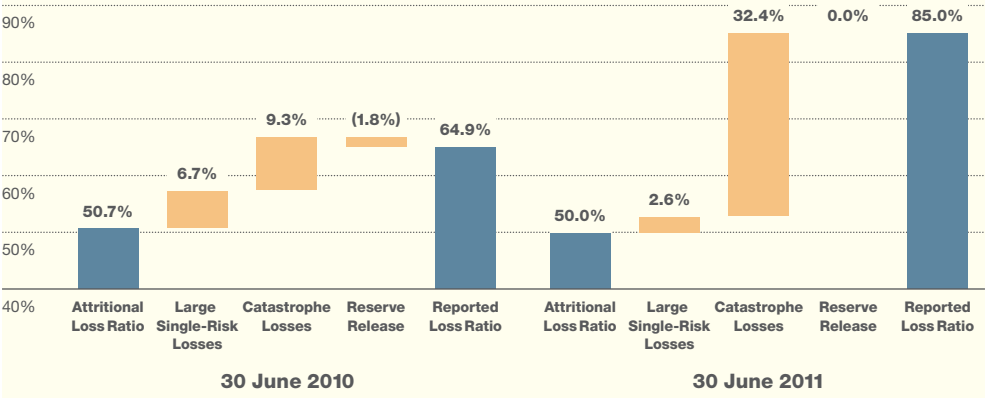
These estimates have been generally stable, except for the New Zealand losses which deteriorated due to the considerable increase in advices received from cedants. All gross loss estimates are still subject to considerable uncertainty. However, the uncertainty relating to the net loss estimates is mitigated by the Catastrophe Aggregate programme.

The 2011 US tornado season has been the deadliest and most costly since modern record-keeping began in 1950. The US$115 million loss estimate arises primarily from the tornadoes that devastated Tuscaloosa, Alabama, in April and Joplin, Missouri, in May.

Many of the tornado losses, including a $35 million risk loss related to St. John's Regional Medical Center in Joplin, arose from US regional reinsurance business, a portfolio Catlin has grown in recent years with the assistance of local underwriting teams based in the United States. The portfolio provides Catlin with diversification from peak US windstorm and earthquake exposures and offers rapid pricing corrections and paybacks following major losses. This book of business has been consistently profitable over time, even when the first-half tornado losses are taken into consideration.

The first-half catastrophes increased the Group's loss ratio by 32.4 percentage points (30 June 2010: 9.3 percentage points). The impact of catastrophe loss experience on the loss ratio over the past four years is shown in the chart below.

Chart 3:
Analysis of loss ratio (%)



The attritional loss ratio of 50.0 per cent (30 June 2010: 50.7 per cent) is the lowest in the past five years and demonstrates Catlin's disciplined portfolio management and underwriting selectivity during the period, especially in the light of the competitive conditions for many classes of business.

The Group incurred two large single-risk losses during the period: a January explosion at an oil-sands processing operation in northern Alberta and storm damage in February to the Gryphon Floating Production Storage and Offloading (FPSO) vessel in the North Sea. These losses increased the loss ratio by 2.6 percentage points (30 June 2010: 6.7 percentage points). Catlin defines large single-risk losses as losses arising from man-made causes that exceed expected severity for the given class of business, typically in excess of US$10 million, gross of reinsurance.

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Catastrophe Aggregate reinsurance protection

Catlin has in place a Catastrophe Aggregate reinsurance programme covering major catastrophe zones which protects the Group against the frequency and severity of catastrophe events. The programme is structured to reduce financial volatility caused by catastrophe-related losses over the course of an entire year. The programme responds excess of aggregate deductibles which are eroded over time. Hence, recoveries are much more likely in the second half of the year.

Whilst the losses from the four first-half catastrophe events were not sufficient for the Group to recover from the programme, recoveries will be available for any qualifying event occurring in the second half of the year or should there be significant loss deterioration relating to any of the first-half catastrophe events. The table below illustrates how the Catastrophe Aggregate programme would respond to different catastrophe scenarios during the second half of 2011 should the estimates of losses from the first-half catastrophes remain unchanged.

Catastrophe scenario (US$m)	Gross loss	Payments due from Catastrophe Aggregate reinsurance	Net loss
Three US windstorm losses ($133 million each)	400	(231)	169
Single $400 million US windstorm loss	400	(281)	119
Single $600 million US earthquake loss	600	(388)	212

The programme does not provide recoveries for large single-risk losses or smaller losses from catastrophe events that are deemed ‘attritional’ losses.

As a result of the accumulation of catastrophe losses during the first half of 2011, potential recoveries from the Catastrophe Aggregate programme during the second half are reflected in the Group’s catastrophe threat scenarios as at 1 June 2011.

The following tables show examples of the Group’s catastrophe threat scenarios using both the Data Model Output and the Adjusted Data Model Output. The Data Model Output reflects the Group’s interpretation of how external models and methods should be applied and are used internally for market consistent comparisons and for regulatory returns. However, uncertainties exist in the modelling based on the Data Model Output. Due to these uncertainties and the range of potential outcomes, Catlin adds a further prudential margin to the modelled output to reflect the degree of uncertainty in any peril or scenario. This Adjusted Data Model Output is used to monitor against the Group’s risk appetite, as guidelines in pricing inwards business, to influence outwards reinsurance purchasing strategy and is a key consideration in the assessment of required capital.

Examples of catastrophe threat scenarios/Data model output
Outcomes derived as at 1 June 2011
On a single loss basis (i.e. net losses for individual threat scenarios are not additive)

US$m	Florida (Miami) Windstorm	California Earthquake	Gulf of Mexico Windstorm	European Windstorm	Japanese Earthquake
Estimated industry loss	125,000	78,000	112,000	31,000	51,000
Catlin Group					
Gross loss	843	843	1,144	522	567
Reinsurance effect[1]	(475)	(583)	(856)	(429)	(426)
Modelled net loss	368	260	288	93	141
Modelled net loss as a percentage of capital available for underwriting[2]	13.0%	9.2%	10.2%	3.3%	5.0%

Examples of catastrophe threat scenarios/Adjusted data model output
Outcomes derived as at 1 June 2011
On a single loss basis (i.e. net losses for individual threat scenarios are not additive)

US$m	Florida (Miami) Windstorm	California Earthquake	Gulf of Mexico Windstorm	European Windstorm	Japanese Earthquake
Estimated industry loss	125,000	78,000	112,000	31,000	51,000
Catlin Group					
Gross loss	972	947	1,319	591	640
Reinsurance effect[1]	(484)	(594)	(963)	(436)	(429)
Modelled net loss	488	353	356	155	212
Modelled net loss as a percentage of capital available for underwriting[2]	17.3%	12.5%	12.6%	5.5%	7.5%

[1] Reinsurance effect includes the impact of both inwards and outwards reinstatements, including any outwards reinsurance accounted for as a derivative. Reinsurance effect also takes into consideration recoveries and erosion of aggregate retentions relating to the previous qualifying events.
[2] Capital available for underwriting amounted to US$2.8 billion at 31 December 2010; defined as total stockholders' equity (including preferred shares), less intangible assets net of associated deferred tax.

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The modelled outcomes in the tables are mean losses from a range of potential outcomes. Significant variance around the mean is possible. Catlin understands that modelling is an inexact science and undertakes mitigating actions against this model uncertainty. Modelling is used to inform and complement the views of both underwriting and actuarial teams.

Underwriting performance

The US$534 million in estimated catastrophe losses incurred during the first half of 2011 caused the Group to produce a negative underwriting contribution of US$91 million (30 June 2010: US$227 million). However, underlying underwriting performance was strong during the period, as demonstrated by the 50.0 per cent attritional loss ratio.

An analysis of underwriting results by underwriting hub is contained in the table below.

US$m	London	Bermuda	US	International	Group total
Six months ended 30 June 2011					
Gross premiums written	1,355	451	406	471	2,683
Net premiums earned	953	241	288	281	1,763
Underwriting contribution	(26)	(145)	40	40	(91)
Loss ratio	82%	137%	69%	67%	85%
Attritional loss ratio	48%	37%	60%	57%	50%
Six months ended 30 June 2010					
Gross premiums written	1,409	419	346	287	2,461
Net premiums earned	906	216	272	178	1,572
Underwriting contribution	84	54	40	49	227
Loss ratio	69%	55%	68%	53%	65%
Attritional loss ratio	50%	35%	61%	55%	51%

Both the London/UK and Bermuda underwriting hubs – which together write the vast majority of the Group's property catastrophe reinsurance portfolio – produced negative underwriting contribution during the period as a result of the catastrophe losses. However, the hubs continued to perform well in terms of the attritional loss ratio, which excludes catastrophe and large single-risk losses. This reflects Catlin's proactive management of its risk portfolio during the course of a market cycle.

Gross premiums written by the US and International hubs continued to increase, a product of Catlin's significant investment in these hubs over the past several years. Loss ratios for the US and International hubs increased during the period, reflecting losses from the US tornadoes recorded in the US hub and losses arising from the Japanese and New Zealand earthquakes and the Australian floods which impacted the International hub. However, the US hub's attritional loss ratio decreased during the period. The small increase in the International hub's attritional loss ratio was largely the result of claims arising from Cyclone Yasi, which caused significant property damage in Australia in February, although not enough to be categorised as a catastrophe event for the Group.

The Group also analyses its performance by type of business written. An analysis of underwriting performance by Catlin's six product groups is shown in the table below.

US$m	Gross premiums written	Net premiums earned	Underwriting contribution	Loss ratio
Six months ended 30 June 2011[1]				
Aerospace	172	177	47	52%
Casualty	448	345	34	73%
Energy/Marine	402	226	(10)	80%
Property	272	202	21	63%
Reinsurance	1,175	639	(236)	119%
Specialty/War & Political Risk	230	189	79	39%
Six months ended 30 June 2010[1]				
Aerospace	191	203	30	64%
Casualty	435	339	13	81%
Energy/Marine	378	219	21	65%
Property	254	177	51	42%
Reinsurance	958	504	87	66%
Specialty/War & Political Risk	244	167	75	34%

[1] Product group data excludes effects of Syndicate 2020 movements

Gross premiums written by the Aerospace product group decreased by 10 per cent during the first half of 2011, reflecting continued underwriting discipline in response to competition in some Aviation classes, particularly Airline business. Underwriting contribution increased by 57 per cent due to this selective underwriting combined with the generally benign loss experience during the period.

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The 3 per cent rise in gross premiums written by the Casualty product group was largely attributable to the increased volume of short-tail Casualty business underwritten by the US hub. Retail specialty Casualty classes continue to generate acceptable rate adequacy compared with longer-tail, wholesale Casualty classes, for which competition is still robust. During the period Catlin continued to reduce the book of wholesale long-tail Casualty business underwritten by the London/UK hub. The underwriting contribution produced by the Casualty product group increased by 162 per cent during the period, resulting from the active portfolio management over the past several years.

Energy/Marine gross premiums written increased by 6 per cent, reflecting growth in the developing retail portfolios underwritten by the US and International hubs. However, the underwriting opportunities in the Energy market that were anticipated in the aftermath of the 2010 Deepwater Horizon disaster have been slow to materialise, and competitive pressures have strengthened as a result of the increased capacity that has flowed into the sector. Many classes of Marine business also remain competitive. The Energy/Marine product group produced a negative underwriting contribution of US$10 million (30 June 2010: US$21 million underwriting contribution), largely as a result of two large single-risk losses which impacted the Energy book.

Gross premiums written by the Property product group rose by 7 per cent, largely the result of an increase in binding authority programmes underwritten by the London/UK and International hubs for which rate adequacy is good. The Property underwriting contribution decreased by 59 per cent, which is a reflection of the catastrophe losses sustained during the period.

The successful launch of Catlin Re Switzerland resulted in a 23 per cent increase in gross premiums written by the Reinsurance product group. The Group's expanding portfolio of Agricultural Reinsurance also contributed to the increase. Most of the catastrophe losses incurred by the Group in the first half arose from the Property Treaty Reinsurance portfolio, and the Reinsurance product group produced a negative underwriting contribution of US$236 million (30 June 2010: US$87 million positive contribution).

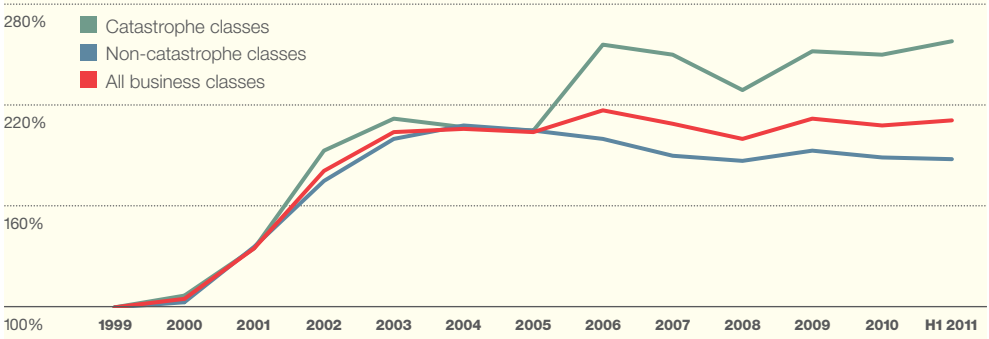
Gross premiums written by the Specialty/War & Political Risk product group decreased by 6 per cent. Whilst the Accident & Health portfolio continued to grow, the Group exercised caution in the War & Political Risk sector as competition increased for certain classes as rates deteriorated from the strong levels that followed the credit crisis. Underwriting contribution increased by 5 per cent.

Rating environment

Average weighted premium rates across the Group's portfolio of business increased by 1 per cent during the six months ended 30 June 2011 (30 June 2010: nil per cent). Average weighted premium rates for catastrophe-exposed classes increased by 3 per cent during the period (30 June 2010: negative 1 per cent), whilst average rates for non-catastrophe classes were essentially flat (30 June 2010: nil per cent).

The following chart shows movements in the Group's rate indexes for the overall portfolio as well as for catastrophe and non-catastrophe business classes from 1999 through 30 June 2011.

Chart 4:
Rate indexes for catastrophe and non-catastrophe business classes



Note: Index = 100% at 31 December 1999; index values are at 31 December except for 2011

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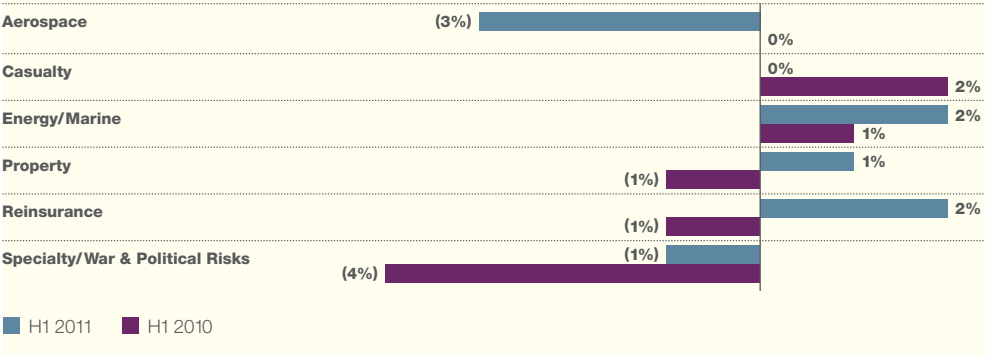
The chart below shows changes in average weighted premium rates for each of Catlin's six product groups during the first six months of 2011 and 2010.

Chart 5:
Average weighted rate movements by product group (%)



The reduction in average weighted Aerospace premium rates in the first half of 2011 reflects the ongoing competition for aerospace risks, which has prompted Catlin to reduce its participation, especially in the Airline class of business. Competition continued for most classes of Casualty business, but average rates across the Group's Casualty book of business were flat due to careful portfolio management. Average Energy/Marine rates increased due to stronger rating for offshore installations following the Deepwater Horizon loss. Marine rates were broadly flat amid continued competition for most classes of business.

Reinsurance rates increased by 2 per cent during the period. Property Catastrophe reinsurance pricing increased significantly during 1 June renewals in the aftermath of the catastrophe events earlier in the year. During 1 June renewals, rates for non-US Property Treaty reinsurance increased by an average of 41 per cent, whilst US treaties increased by 8 per cent; the weighted average was 9 per cent. During 1 July renewals, rates for non-US business increased by an average of 34 per cent, whilst US rates increased by an average of 5 per cent due to the greater proportion of risk excess of loss programmes that renew on 1 July. However, due to the substantial amount of non-US programmes renewing at 1 July, the weighted average increase was 17 per cent.

Primary Property rates increased slightly during the first half, but 1 July renewals showed evidence that US primary Property rates were beginning to rise as a result of increased Property Treaty reinsurance pricing. The Group expects that primary Property rates will continue to harden during the second half.

Average weighted premium rates for Specialty/War & Political Risk classes of business fell slightly in the first half as rates for selected classes of political and credit risk business decreased from the high levels that followed the credit crisis. Accident & Health rates were stable, and this class of business continues to offer good rate adequacy.

Investment Review

Total return on Catlin's average cash and investments of US$8.2 billion during the period ended 30 June 2011 amounted to 1.5 per cent (30 June 2010: 1.8 per cent). Total investment return amounted to US$119 million (30 June 2010: US$140 million).

Cash and investments increased by 3 per cent during the first half of 2011 to US$8.3 billion (31 December 2010: US$8.0 billion).

A breakdown of the Group's investment performance appears in the table below.

	30 June 2011	30 June 2010
Interest income	**$77**	$71
Net gains on fixed maturities and short-term investments	**39**	67
Net gains on other invested assets	**3**	2
Total investment return	**119**	140

The performance of the Group's major categories of assets at 30 June 2011 is analysed in the table below.

US$m	**Allocation at 30 June 2011**	Average allocation during period	Average allocation during period %	Total return	Total return %
Fixed income	**5,481**	5,166	63.2%	104	2.0%
Cash and short-term investments	**2,616**	2,848	34.8%	12	0.4%
Funds – strategic[1]	**134**	114	1.4%	5	4.2%
Funds – run-off	**25**	51	0.6%	(2)	(4.4%)
Total	**8,256**	8,179	100.0%	119	1.5%

[1] Strategic funds include investments in unquoted private equity and debt

Half-yearly Results Statement

For the six months ended 30 June 2011

Investment return during the first half was largely driven by the Group's fixed income portfolio, which benefitted from tighter credit spreads during the first quarter and lower interest rates during the second quarter.

Investments during the period were fully managed under the investment strategy and framework that was implemented by the Group during 2010. This strategy aims to maximise economic value whilst minimising downside risk to capital. The investment strategy operates within a comprehensive risk limit framework that is based on capital, solvency and earnings targets.

Under this strategy, a significant majority of Catlin's investments comprise a core portfolio, which is aligned with the profile of the Group's liabilities. A tactical portfolio is invested in credit, selected other fixed income instruments and other asset classes to extract premium from Catlin's high levels of liquidity and to benefit from dislocations as they may arise. The Group uses overlays to manage portfolio and macro risks more efficiently. Currently, overlays are used to manage the risks of interest rate movements and credit spread widening.

The duration of the fixed income portfolio was 2.8 years at 30 June 2011 (31 December 2010: 2.5 years). The duration of the total cash and investment portfolio was 1.9 years at 30 June 2011 (31 December 2010: 1.5 years). The yield to maturity on the fixed income portfolio was 1.9 per cent at 30 June 2011 (31 December 2010: 1.8 per cent).

The Group's asset allocation at 30 June 2011 is shown in the table below.

	30 June 2011	30 June 2010
Fixed income	**66%**	57%
Cash and short-term investments	**32%**	41%
Funds – strategic	**2%**	1%
Funds – run-off	*	1%
	100%	100%

* Less than 0.5 per cent

Whilst the Group maintained its flexible and defensive investment strategy during the first half of 2011 amid continuing economic uncertainty, a portion of the Group's cash holdings was invested into fixed income instruments, particularly government/agency backed bonds and high-quality corporate bonds. The increased allocation to the fixed income portfolio is consistent with the Group's investment strategy and improved the portfolio's overall performance during the period.

As a result of this decision, the percentage of cash and short-term instruments decreased to 32 per cent of total investment assets at 30 June 2011 (31 December 2010: 41 per cent). Liquid assets – which are defined as cash, government securities and fixed income securities with less than six months to maturity – amounted to 57 per cent at 30 June 2011 (31 December 2010: 67 per cent).

The Group continued to redeem non-strategic hedge fund investments. At 30 June 2011, investments in these funds amounted to US$25 million (31 December 2010: US$98 million) and represented less than 0.5 per cent (31 December 2010: 1 per cent) of total cash and investments.

Ninety-two per cent of Catlin's fixed income investments are held in government/agency securities or instruments rated 'A' or higher (31 December 2010: 97 per cent). The change reflects an increased allocation to corporate bonds and better diversification across the investment grade spectrum for these tactical, investment-grade corporate credit focused mandates.

The quality of the Group's fixed income investments is analysed in the table below.

30 June 2011	Government/ agency	AAA	AA	A	BBB	Non-investment grade	Assets US$m
US government/agencies	16%	–	–	–	–	–	896
Non-US government/ agencies	21%	–	–	–	–	–	1,167
Agency mortgage-backed securities	13%	–	–	–	–	–	704
FDIC-backed corporate bonds	3%	–	–	–	–	–	162
Asset-backed securities	–	9%	–	–	–	–	509
Corporate bonds	–	5%	15%	10%	5%	1%	1,927
Commercial mortgage-backed securities	–	–	–	*	1%	*	64
Non-agency mortgage-backed securities	–	*	–	–	–	*	41
Total	53%	14%	15%	10%	6%	2%	5,470[1]

* Less than 0.5 per cent
[1] Excludes US$11 million relating to fixed income derivatives

At 30 June 2011 the Group has no exposure to government bonds issued by Portugal, Italy, Ireland, Greece or Spain.

Half-yearly Results Statement

For the six months ended 30 June 2011

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are described on pages 59 to 61 of the Group's 2010 Annual Report and Accounts. The principal risks faced by the Group, as stated in the Annual Report, include:

- Insurance risk
  - Underwriting risk for new business in a given planning period
  - Underwriting risk for business already written but not yet earned
  - Reserving risk

- Other risk categories
  - Financial market risk
  - Liquidity risk
  - Currency risk
  - Credit risk
  - Operational risk

These are still considered to be the most relevant risks and uncertainties at the date of this report, and further disclosure in this report is not considered necessary. Any of these risks and uncertainties could have an impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ from expected and historic results.

Going concern

The Board is satisfied that the Company has adequate resources to continue in operation for the foreseeable future. The Company's financial statements therefore continue to be prepared on a going concern basis.

Conclusion

The insurance industry's performance for the full year depends largely on Atlantic windstorm and other catastrophe activity during the second half. There have been virtually no insured losses arising from Atlantic windstorms for the past two years, and various forecasters predict a severe Atlantic windstorm season in 2011. It is rare to incur no substantial insured Atlantic windstorm losses for three consecutive years.

However, Catlin is in a strong position, regardless of catastrophe experience in the second half. The Group's underlying underwriting performance was strong in the first half as illustrated by the attritional loss ratio, and we expect this performance to continue through the remainder of the year. Catlin has historically produced strong underwriting contributions during the second half, notwithstanding windstorm-related losses; the Group produced an underwriting contribution of US$456 million in the second half of 2010 in the light of the benign North Atlantic hurricane season.

If there are further catastrophe events during the second half, Catlin expects to receive significant recoveries from the Catastrophe Aggregate programme which will limit the financial impact arising from such events. Further catastrophe losses during 2011 will only strengthen the recovery in Property Treaty reinsurance rates that began in the first half and could have an impact on the wider marketplace, including Casualty and Aviation classes of business. Even if there are no further catastrophe losses during 2011, we still expect Property insurance and reinsurance rates to improve for the remainder of the year and into 2012, and we see pressure building for changes in broader market conditions.

We also expect continued profitable growth from our US and International underwriting hubs. These hubs produced a meaningful underwriting contribution in the first half, and we expect their contribution to Catlin's profits will continue to grow. Our international hub structure combined with our disciplined approach to underwriting will allow Catlin to prosper in the current market environment and put us in a good position to take advantage of opportunities whenever and wherever they occur worldwide.

Sir Graham Hearne will be retiring as Chairman of the Board at the Annual General Meeting in May 2012. Sir Graham has served as Chairman of the Board since 2003 during a period of substantial growth in the Group's worldwide activities. On behalf of the Board, I would like to thank Sir Graham for his leadership and tireless efforts on behalf of the Company. We wish him well as he retires from his role at Catlin.

Sir Graham will be succeeded by John Barton, who will join the Board as an Independent Non-Executive Director on 1 December 2011. John has wide experience in the insurance industry and has served as a director of a diverse range of companies. He was Chief Executive of insurance brokerage JIB Group for 13 years and later served as Chairman of Jardine Lloyd Thompson Group plc (the successor company to JIB). He also served as Chairman of Wellington Underwriting plc and Brit Holdings PLC, as well as a non-executive director of WH Smith PLC and Hammerson plc. He is currently Chairman of Next plc and Cable & Wireless Worldwide plc.

Catlin continues to build a business for the future, and we look ahead with confidence.

Stephen Catlin
Chief Executive
3 August 2011

Consolidated Balance Sheets

As at 30 June 2011 and 2010 and 31 December 2010 (US dollars in millions)

	30 June 2011 (unaudited)	31 December 2010 (audited)	30 June 2010 (unaudited)
Assets			
Investments			
Fixed maturities, at fair value	**$5,481**	$4,577	$4,053
Short-term investments, at fair value	**82**	594	804
Other invested assets, at fair value	**159**	200	221
Total investments	**5,722**	5,371	5,078
Cash and cash equivalents	**2,534**	2,650	2,458
Accrued investment income	**46**	33	32
Premiums and other receivables	**1,993**	1,322	1,525
Reinsurance recoverable (net of bad debts)	**1,025**	1,229	1,175
Reinsurers' share of unearned premiums	**405**	276	463
Deferred policy acquisition costs	**483**	354	421
Intangible assets and goodwill	**721**	716	715
Foreign exchange derivatives, at fair value	**1**	–	–
Catastrophe swaps, at fair value	**–**	–	7
Unsettled trades receivable	**151**	–	–
Other assets	**207**	131	189
Total assets	**$13,288**	$12,082	$12,063
Liabilities and Stockholders' Equity			
Liabilities:			
Reserves for losses and loss expenses	**$6,395**	$5,549	$5,396
Unearned premiums	**2,549**	1,886	2,251
Reinsurance payable	**451**	559	550
Accounts payable and other liabilities	**291**	273	328
Subordinated debt	**94**	93	92
Unsettled trades payable	**166**	37	–
Foreign exchange derivatives, at fair value	**–**	–	12
Deferred tax liability (net)	**221**	237	240
Total liabilities	**$10,167**	$8,634	$8,869

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

	30 June 2011 (unaudited)	31 December 2010 (audited)	30 June 2010 (unaudited)
Stockholders' equity:			
Common stock	**$4**	$4	$4
Preferred stock	**590**	590	590
Additional paid-in capital	**1,953**	1,955	1,937
Treasury stock	**(105)**	(105)	(101)
Accumulated other comprehensive loss	**(190)**	(184)	(195)
Retained earnings	**869**	1,188	959
Total stockholders' equity	**3,121**	3,448	3,194
Total liabilities and stockholders' equity	**$13,288**	$12,082	$12,063

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

Approved by the Board of Directors on 3 August 2011.

Stephen Catlin
Director

Benjamin Meuli
Director

Consolidated Statements of Operations (Unaudited)

For the six months ended 30 June 2011 and 2010 (US dollars in millions, except per share amounts)

	2011	2010
Revenues		
Gross premiums written	**$2,683**	$2,461
Reinsurance premiums ceded	**(414)**	(568)
Net premiums written	**2,269**	1,893
Change in net unearned premiums	**(506)**	(321)
Net premiums earned	**1,763**	1,572
Net investment return	**115**	137
Change in fair value of catastrophe swaps	**–**	(2)
Net gains/(losses) on foreign currency	**15**	(49)
Other income	**2**	1
Total revenues	**1,895**	1,659
Expenses		
Losses and loss expenses	**1,498**	1,020
Policy acquisition costs	**356**	325
Administrative and other expenses	**235**	219
Financing costs	**7**	9
Total expenses	**2,096**	1,573
Net (loss)/income before income tax	**(201)**	86
Income tax benefit/(expense)	**3**	(7)
Net (loss)/income	**$(198)**	$79
Preferred stock dividend	**(22)**	(22)
Net (loss)/income to common stockholders	**$(220)**	$57
Earnings per common share		
Basic	**$(0.64)**	$0.17
Diluted	**$(0.64)**	$0.16

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

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

For the six months ended 30 June 2011 and 2010 (US dollars in millions)

	Common stock	Preferred stock	Additional paid-in capital	Treasury stock	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
Balance 1 January 2010	$4	$590	$1,938	$(62)	$(189)	$997	$3,278
Comprehensive income:							
Net income to common stockholders	–	–	–	–	–	57	57
Other comprehensive loss	–	–	–	–	(6)	–	(6)
Total comprehensive income	–	–	–	–	(6)	57	51
Stock compensation expense	–	–	7	–	–	–	7
Stock options and warrants exercised	–	–	–	–	–	–	–
Dividends	–	–	–	–	–	(90)	(90)
Deferred compensation obligation	–	–	5	–	–	(5)	–
Treasury stock purchased	–	–	–	(52)	–	–	(52)
Distribution of treasury stock held by Employee Benefit Trust	–	–	(13)	13	–	–	–
Balance 30 June 2010	$4	$590	$1,937	$(101)	$(195)	$959	$3,194
Balance 1 January 2011	$4	$590	$1,955	$(105)	$(184)	$1,188	$3,448
Comprehensive income:							
Net loss to common stockholders	–	–	–	–	–	(220)	(220)
Other comprehensive loss	–	–	–	–	(6)	–	(6)
Total comprehensive loss	–	–	–	–	(6)	(220)	(226)
Stock compensation expense	–	–	3	–	–	–	3
Stock options and warrants exercised	–	–	–	–	–	–	–
Dividends	–	–	–	–	–	(99)	(99)
Treasury stock purchased	–	–	–	(5)	–	–	(5)
Distribution of treasury stock held in Employee Benefit Trust	–	–	(5)	5	–	–	–
Balance 30 June 2011	$4	$590	$1,953	$(105)	$(190)	$869	$3,121

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

Consolidated Statements of Cash Flows (Unaudited)

For the six months ended 30 June 2011 and 2010 (US dollars in millions)

	2011	2010
Cash flows provided by operating activities		
Net (loss)/income	**$(198)**	$79
Adjustments to reconcile net income to net cash provided by operations:		
Amortisation and depreciation	**8**	8
Amortisation of premiums of fixed maturities	**21**	13
Net gains on investments	**(42)**	(69)
Changes in operating assets and liabilities		
Reserves for losses and loss expenses	**760**	140
Unearned premiums	**631**	570
Premiums and other receivables	**(650)**	(427)
Deferred policy acquisition costs	**(125)**	(137)
Reinsurance payable	**(121)**	(86)
Reinsurance recoverable	**242**	211
Reinsurers' share of unearned premiums	**(125)**	(262)
Accounts payable and other liabilities	**17**	28
Deferred taxes	**(39)**	(9)
Other	**(134)**	42
Net cash flows provided by operating activities	**$245**	$101
Cash flows used in investing activities		
Purchases of fixed maturities	**(3,565)**	(1,249)
Proceeds from sales of fixed maturities	**2,594**	941
Proceeds from maturities of fixed maturities	**135**	122
Net purchases, sales and maturities of short-term investments	**516**	(21)
Purchases of other invested assets	**(28)**	(4)
Redemptions of other invested assets	**72**	312
Net purchases and sales of property and equipment	**(36)**	(4)
Net cash flows (used in)/provided by investing activities	**$(312)**	$97

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

	2011	2010
Cash flows used in financing activities		
Dividends paid on common stock	**(99)**	(90)
Dividends paid on preferred stock	**(22)**	(22)
Purchase of treasury stock	**(5)**	(52)
Net cash flows used in financing activities	**(126)**	(164)
Net (decrease)/increase in cash and cash equivalents	**(193)**	34
Effect of exchange rate changes in the period	**77**	(76)
Cash and cash equivalents – beginning of period	**2,650**	2,500
Cash and cash equivalents – end of period	**$2,534**	$2,458
Supplemental cash flow information		
Taxes paid/(received)	**$23**	$(25)
Interest paid	**$1**	$5
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	**$1,863**	$1,970
Cash equivalents	**$671**	$488

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

Notes to the Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2011 and 2010

1 General

Basis of presentation

Catlin Group Limited ('Catlin' or the 'Company') is a holding company incorporated on 25 June 1999 under the laws of Bermuda. Through its subsidiaries, which together with the Company are referred to as the 'Group', Catlin underwrites specialty classes of insurance and reinsurance on a global basis.

The unaudited interim consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ('US GAAP') for interim financial statements. The policies applied are consistent with those set out in the consolidated financial statements for the year ended 31 December 2010.

Certain insignificant reclassifications have been made to prior period amounts to conform to the 2011 presentation.

2 Segmental information

The Group determines its reportable segments by underwriting hubs, consistent with the manner in which results are reviewed by management.

The four reportable segments are:

- London/UK, which comprises direct insurance and reinsurance business originating in the United Kingdom;
- Bermuda, which primarily underwrites reinsurance business;
- US, which underwrites direct insurance and reinsurance business originating in the United States; and
- International, which comprises the Group's Asia-Pacific, Europe and Canada underwriting hubs which provide a full complement of insurance and reinsurance services for their markets.

Net underwriting contribution by segment for the period ended 30 June 2011 is as follows:

(US dollars in millions)	London/ UK	Bermuda	US	International	Total
Gross premiums written	$1,355	$451	$406	$471	$2,683
Net premiums earned	953	241	288	281	1,763
Losses and loss expenses	(781)	(330)	(199)	(188)	(1,498)
Policy acquisition costs	(198)	(56)	(49)	(53)	(356)
Net underwriting contribution	$(26)	$(145)	$40	$40	$(91)

Net underwriting contribution by segment for the period ended 30 June 2010 is as follows:

(US dollars in millions)	London/ UK	Bermuda	US	International	Total
Gross premiums written	$1,409	$419	$346	$287	$2,461
Net premiums earned	906	216	272	178	1,572
Losses and loss expenses	(624)	(119)	(183)	(94)	(1,020)
Policy acquisition costs	(198)	(43)	(49)	(35)	(325)
Net underwriting contribution	$84	$54	$40	$49	$227

The effects of intra-Group reinsurance contracts are excluded from segmental revenue and results, as this is the basis upon which the performance of each segment is assessed.

The components of net underwriting result shown above are reported on the face of the Consolidated Statements of Operations. No other items of revenue or expense are managed on a segmental basis.

Assets are reviewed in total by management for purposes of decision making. The Group does not allocate assets to the reporting segments.

3 Investments

Fixed maturities

The fair values of fixed maturities at 30 June 2011 and 2010 are as follows:

(US dollars in millions)	**2011**	2010
US government and agencies	**$896**	$776
Non-US governments	**1,167**	808
Corporate securities	**2,089**	1,392
Asset-backed securities	**509**	264
Mortgage-backed securities	**809**	813
Interest rate options	**8**	–
Credit default options	**3**	–
Total fixed maturities	**$5,481**	$4,053

Fixed maturities at 30 June 2011, by contractual maturity, are shown overleaf. 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.

Notes to the Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2011 and 2010

(US dollars in millions)	2011
Due in one year or less	**$458**
Due after one through five years	**2,903**
Due after five years through ten years	**692**
Due after ten years	**99**
	4,152
Asset-backed securities	**509**
Mortgage-backed securities	**809**
Interest rate options	**8**
Credit default options	**3**
Total	**$5,481**

The Group did not have an aggregate investment with a single counterparty, other than the US government, in excess of 10 per cent of total investments at 30 June 2011 and 2010.

Other invested assets

Other invested assets by category at 30 June 2011 and 2010 are as follows:

(US dollars in millions)	2011	2010
Hedge and private equity funds	**$151**	$168
Funds of funds	**–**	6
Bond fund	**–**	47
Total investments in funds	**151**	221
Other investments	**8**	–
Total other invested assets	**$159**	$221

Hedge and private equity funds comprise ten individual hedge funds and two individual private equity funds. The Group has issued redemption notices in respect of six of the hedge funds and received the majority of the proceeds. The balance will be paid on the completion of the final fund audit or the disposal of remaining investments. The first redemption date for the remaining four hedge funds ranges from one month to two years. The two private equity funds have initial investment periods of up to five years.

Funds of funds were two funds invested across a diversified set of managers, strategies and underlying asset classes. The bond fund was a portfolio of government and corporate bonds with an objective to outperform the OECD bond benchmark over a two-year period. The funds of funds and the bond fund were redeemed in July 2010.

Other investments comprise holdings in unquoted private equity and debt.

There are unfunded commitments of $25 million related to investment in funds as at 30 June 2011.

Net investment return

The components of net investment return for the periods ended 30 June 2011 and 2010 are as follows:

(US dollars in millions)	2011	2010
Interest income	**$77**	$71
Net gains on fixed maturities and short-term investments	**39**	67
Net gains on other invested assets	**3**	2
Total investment return	**119**	140
Investment expenses	**(4)**	(3)
Net investment return	**$115**	$137

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 for Letters of Credit ('LOC'), as described in Note 12. Finally, the Group also utilises trust funds set up for the benefit of certain ceding companies generally as an alternative to LOCs.

The total values of these restricted assets by category at 30 June 2011 and 2010 are as follows:

(US dollars in millions)	2011	2010
Fixed maturities	**$2,868**	$1,879
Short-term investments	**6**	45
Cash and cash equivalents	**871**	670
Total restricted assets	**$3,745**	$2,594

4 Fair value measurement

The Financial Accounting Standards Board ('FASB') accounting guidance on fair value measurements and disclosures defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. the 'exit price') in an orderly transaction between market participants at the measurement date. In determining fair value, management uses various valuation approaches, including market and income approaches. The FASB accounting guidance establishes a hierarchy for inputs used in measuring fair value that maximises the use of observable inputs and minimises the use of unobservable inputs by requiring that the most observable inputs be used when available. The three levels of the FASB accounting guideline on fair value measurements and disclosures hierarchy are described overleaf.

Notes to the Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2011 and 2010

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Group has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Assets utilising Level 1 inputs comprise US government securities.

Level 2 – Valuations based on quoted prices in markets that are not active or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Assets and liabilities utilising Level 2 inputs include: US agency securities; non-US government obligations, corporate and municipal bonds, residential mortgage-backed securities ('RMBS'), commercial mortgage-backed securities ('CMBS') and asset-backed securities ('ABS') to the extent that they are not identified as Level 3 items; over-the-counter ('OTC') derivatives (e.g. foreign exchange contracts and interest rate options); fixed-term cash deposits classified as short-term investments and investments in funds with few restrictions on redemptions or new investors.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect our own assessment of assumptions that market participants might use.

Assets utilising Level 3 inputs include: insurance and reinsurance derivative contracts ('cat swaps'); investments in funds with significant redemption restrictions; unquoted private equity and debt; collateralised debt obligations ('CDO'); sub-prime securities, Alt-A securities and securities rated CCC and below, where the unobservable inputs reflect individual assumptions and judgments regarding ultimate delinquency and foreclosure rates and estimates regarding the likelihood and timing of events of defaults.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors, including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorised in Level 3. The Group uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified between levels.

Assets and liabilities measured at fair value on a recurring basis

The table below shows the values at 30 June 2011 of assets measured at fair value on a recurring basis, analysed by the level of inputs used.

(US dollars in millions)	**Balance at 30 June 2011**	Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets				
US government and agencies	**$896**	$631	$265	$–
Non-US governments	**1,167**	–	1,167	–
Corporate securities	**2,089**	–	2,089	–
RMBS	**745**	–	701	44
CMBS	**64**	–	61	3
ABS	**509**	–	509	–
CDO	**–**	–	–	–
Interest rate options	**8**	–	8	–
Credit default options	**3**	–	3	–
Total fixed maturities	**5,481**	631	4,803	47
Short-term investments	**82**	–	82	–
Other invested assets	**159**	–	40	119
Foreign exchange derivative contracts	**1**	–	1	–
Catastrophe swaps	**–**	–	–	–
Total assets at fair value	**$5,723**	$631	$4,926	$166

In December 2010, the Group has reclassified US Treasuries to Level 1 securities as it determined that the level of trading activity for all US Treasuries is high and that quoted prices are readily and regularly available for these securities.

Notes to the Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2011 and 2010

The table below shows the values at 30 June 2010 of assets and liabilities measured at fair value on a recurring basis, analysed by the level of inputs used.

(US dollars in millions)	Balance at 30 June 2010	Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets				
US government and agencies	$776	$–	$776	$–
Non-US governments	808	–	808	–
Corporate securities	1,392	–	1,392	–
RMBS	638	–	604	34
CMBS	175	–	175	–
ABS	260	–	258	2
CDO	4	–	–	4
Total fixed maturities	4,053	–	4,013	40
Short-term investments	804	–	804	–
Other invested assets	221	–	53	168
Catastrophe swaps	7	–	–	7
Total assets at fair value	$5,085	$–	$4,870	$215
Liabilities				
Foreign exchange derivative contracts	$(12)	$–	$(12)	$–

The changes in the period in balances measured at fair value on a recurring basis using Level 3 inputs were as follows:

(US dollars in millions)	Total	RMBS	ABS	CDO	CMBS	Other invested assets
Balance, 1 January 2011	$168	$2	$3	$3	$–	$160
Total net gains included in income	8	–	–	6	–	2
Acquisitions	63	33	–	–	2	28
Disposals	(84)	–	(3)	(9)	–	(72)
Transfers into Level 3	10	9	–	–	1	–
Transfers out of Level 3	–	–	–	–	–	–
Foreign exchange	1	–	–	–	–	1
Balance, 30 June 2011	$166	$44	$–	$–	$3	$119
Amount of gains relating to balances still held at period end	$3	$–	$–	$–	$–	$3

Assets transferred into Level 3 were securities classified as sub prime at 30 June 2011 but not at 31 December 2010.

The changes in the period ended 30 June 2010 in balances measured at fair value on a recurring basis using Level 3 inputs were as follows:

(US dollars in millions)	Total	RMBS	ABS	CDO	Investments in funds	Catastrophe swaps
Balance, 1 January 2010	$432	$66	$4	$4	$357	$1
Total net gains included in income	17	4	1	–	6	6
Net disposals	(241)	(47)	(2)	–	(192)	–
Transfers into Level 3	11	11	–	–	–	–
Transfers out of Level 3	(1)	–	(1)	–	–	–
Foreign exchange	(3)	–	–	–	(3)	–
Balance, 30 June 2010	$215	$34	$2	$4	$168	$7
Amount of gains relating to balances still held at period end	$10	$–	$–	$1	$3	$6

Level 3 transfers in from Level 2 for RMBS were due to securities rated at CCC or below, where previously they were rated B or higher. Level 3 transfers out of ABS and into RMBS were due to a change in classification of assets.

Fair value of financial instruments

The following methods and assumptions are used by the Group in estimating the fair value of its financial instruments:

Investments: Fair values of fixed maturities and short-term investments are 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 underwriting bid indications. The fair value of investments in funds is based on either the net asset value provided by the funds' administrators, or where available, the quoted price of the funds. The fair values of holdings in private equity and debt are estimated by management based on prices provided by administrators and recent transactions, if any.

Derivatives: The fair values of the catastrophe swap agreements were determined using internal models based on the valuation of the underlying notes issued by the counterparty. The determination of the fair values takes into account changes in the market for catastrophic reinsurance contracts with similar economic characteristics and the potential for recoveries from events preceding the valuation date. The fair values of interest rate, foreign exchange and credit default option contracts are based on prices provided by independent pricing services.

Subordinated debt: Subordinated debt is not carried at fair value but at historical cost. At 30 June 2011, the fair value of the subordinated debt was $72 million which compared to a carrying value of $94 million. The fair value of the subordinated debt is estimated by comparing Catlin Bermuda's preferred stock and other peer group instruments to determine market required yields. Market required yields were used to estimate market value.

Other assets and liabilities: The fair values of cash and cash equivalents, premiums and other receivables, and accounts payable approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

Notes to the Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2011 and 2010

5 Reserves for losses and loss expenses

The Group establishes reserves for losses and loss expenses, which are estimates of future payments of reported and unreported losses and related expenses, with respect to insured events that have occurred. The process of establishing reserves is 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 earnings in the period in which the estimates are changed. Management believes it has made a reasonable estimate of the level of reserves at 30 June 2011 and 2010.

The reconciliation of unpaid losses and loss expenses for the six months ended 30 June 2011 and 2010 is as follows:

(US dollars in millions)	**2011**	2010
Gross unpaid losses and loss expenses, beginning of year	**$5,549**	$5,392
Reinsurance recoverable on unpaid loss and loss expenses	**(1,039)**	(1,172)
Net unpaid losses and loss expenses, beginning of year	**4,510**	4,220
Net incurred losses and loss expenses for claims related to:		
Current period	**1,498**	1,049
Prior periods	**–**	(29)
Total net incurred losses and loss expenses	**1,498**	1,020
Net paid losses and loss expenses for claims related to:		
Current period	**(177)**	(203)
Prior periods	**(564)**	(550)
Total net paid losses and loss expenses	**(741)**	(753)
Foreign exchange and other	**106**	(83)
Net unpaid losses and loss expenses, end of period	**5,373**	4,404
Reinsurance recoverable on unpaid loss and loss expenses	**1,022**	992
Gross unpaid losses and loss expenses, end of period	**$6,395**	$5,396

We have reviewed our estimates of loss reserves and loss expenses for prior period insured events. Overall our estimate remains unchanged from 31 December 2010.

6 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:

	2011			2010		
(US dollars in millions)	**Premiums written**	**Premiums earned**	**Losses incurred**	Premiums written	Premiums earned	Losses Incurred
Direct	**$1,432**	**$1,312**	**$807**	$1,451	$1,301	$767
Assumed	**1,251**	**739**	**789**	1,010	586	354
Ceded	**(414)**	**(288)**	**(98)**	(568)	(315)	(101)
Net premiums	**$2,269**	**$1,763**	**$1,498**	$1,893	$1,572	$1,020

The Group's reinsurance recoverable as at 30 June 2011 and 2010 is as follows:

(US dollars in millions)	2011	2010
Gross reinsurance recoverable	**$1,061**	$1,220
Provision for uncollectible balances	**(36)**	(45)
Net reinsurance recoverable	**$1,025**	$1,175

7 Derivative financial instruments

Option contracts

The Group is exposed to certain risks relating to its ongoing business operations. A primary risk managed by using derivative instruments is market risk including equity risk, interest rate risk, foreign exchange risk and credit risk.

Equity risk

A portion of the investment portfolio is invested in hedge funds and funds of funds. Equity market put option contracts and equity market futures contracts are entered into to manage the market risk associated with holding these investments in funds.

Equity market put option contracts provide the option purchaser with the right but not the obligation to sell a financial instrument at a predetermined exercise price during a defined period. Options contracts are marked to market on a daily basis.

Gains and losses on equity market options and futures contracts are included in net investment return together with related gains on investments in funds in the Consolidated Statements of Operations. Equity market put option contracts' fair value is included in investment in funds on the Consolidated Balance Sheet. No equity market options were held at 30 June 2011 or 2010.

Notes to the Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2011 and 2010

Interest rate risk
The investment portfolio is predominantly invested in cash and fixed income securities and so is exposed to interest rate risk. Interest rate option contracts are purchased to manage the market risk associated with holding cash and fixed income securities.

Gains and losses on interest rate options are included in net investment return together with related gains on fixed maturities in the Consolidated Statements of Operations. Interest rate options' fair value is included in fixed maturities on the Consolidated Balance Sheet.

Foreign exchange risk
During the period, the Group held various foreign currency options to manage currency risk. Gains and losses on foreign exchange contracts are included in net realised gains/(losses) on foreign currency exchange in the Consolidated Statements of Operations.

Credit risk
Part of the investment portfolio is invested in bonds issued by corporate issuers and so is exposed to the default risk of the underlying issuers and also to mark to market fluctuations arising form the market's evaluation of this risk. Credit default option contracts are entered into in order to manage the credit risk associated with holding these securities.

Gains and losses on credit default options are included in net investment return together with related gains on fixed maturities in the Consolidated Statements of Operations. Credit default options' fair value is included in fixed maturities on the Consolidated Balance Sheet.

Catastrophe swap agreement
On 17 December 2007, Catlin Bermuda entered into a contract that provided up to $225 million in coverage in the event of one or more natural catastrophes. Catlin Bermuda's counterparty in the catastrophe swap ('cat swap') was a special purpose vehicle, Newton Re. Newton Re issued to investors $225 million in three-year floating rate notes, divided into Class A and Class B notes. The proceeds of those notes provided the collateral for Newton Re's potential obligations to Catlin Bermuda under the cat swap. The cat swap expired in 2010 without being triggered.

The cat swap was measured in the consolidated balance sheet at fair value with any changes in the fair value included in the Consolidated Statements of Operations. As at 30 June 2010, the fair value of the cat swap was $7 million. As there was no liquid market in this derivative, the fair value was derived from indicative prices for the notes issued by the cat swap counterparties. No cat swaps were held at 30 June 2011.

Impact of derivatives

The fair values of derivatives at 30 June 2011 and 2010 are as follows:

	2011		2010	
(US dollars in millions)	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate options	**$8**	**$–**	$–	$–
Foreign exchange contracts	**1**	**–**	–	(12)
Credit default options	**3**	**–**	–	–
Catastrophe swaps	**–**	**–**	7	–
Total derivatives	**$12**	**$–**	$7	$(12)

The notional values of exchange traded and OTC open derivatives at 30 June 2011 and 2010 are as follows:

	Notional Value	
(US dollars in millions)	**2011**	2010
Interest rate options	**$3,600**	$–
Foreign exchange contracts	**$97**	$148
Credit default options	**$473**	$–

The gains and losses on derivatives for the period ended at 30 June 2011 and 2010 are as follows:

(US dollars in millions)	**2011**	2010
Equity market options contracts	**$–**	$(4)
Interest rate options	**(4)**	–
Foreign exchange contracts	**–**	(20)
Credit default options	**(1)**	–
Catastrophe swaps	**–**	(2)
Net losses on derivatives	**$(5)**	$(26)

The derivatives contracts held by the Group at 30 June 2011 and 2010 contained no significant credit-risk related contingent features.

Notes to the Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2011 and 2010

8 Taxation

Bermuda

Under current Bermuda law neither the Company nor its Bermuda subsidiaries are required to pay any taxes in Bermuda on their income or capital gains. Both the Company and its Bermuda subsidiaries have received undertakings from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, they will be exempt from taxation in Bermuda until March 2035.

United Kingdom

The Group also operates in the UK through its UK subsidiaries and the income of the UK companies is subject to UK corporation taxes.

Income from the Group's operations at Lloyd's is also subject to US income taxes. Under a Closing Agreement between Lloyd's and the Internal Revenue Service (IRS), Lloyd's Members pay US income tax on US connected income written by Lloyd's syndicates. US income tax due on this US-connected income is calculated by Lloyd's and remitted directly to the IRS and is charged by Lloyd's to Members in proportion to their participation on the relevant syndicates. The Group's Corporate Members are all subject to this arrangement but, as UK tax residents, 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.

United States

The Group also operates in the United States through its US subsidiaries, and their income is subject to both US state and federal income taxes.

Other international income taxes

The Group has a network of international operations, and they are also subject to income taxes imposed by the jurisdictions in which they operate, but they do not constitute a material component of the Group's tax charge.

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.

The income tax expense for the six months ended 30 June 2011 and 2010 is as follows:

(US dollars in millions)	**2011**	2010
Current tax expense	**$–**	$–
Deferred tax (benefit)/expense	**(3)**	7
Income tax (benefit)/expense	**$(3)**	$7

The Group records income taxes for the period based on the estimated effective annual rates for the years ending 31 December 2011 and 2010.

The Finance Bill 2011 introduced a reduction to the UK corporation tax rate from 27 per cent to 26 per cent from 1 April 2011 and to 25 per cent from 1 April 2012. Under US GAAP the effect of a reduction in corporation tax rates is not recognised until the bill has been enacted. As the Finance Bill was not enacted at the balance sheet date, the effect of the tax rate reductions on the current tax charge and carrying value of the deferred tax liability have not been recognised. The Finance Bill was enacted on 19 July 2011 when it received Royal Assent; therefore the effect of these rate changes will be reflected in the full-year financial statements.

Unrecognised tax benefits
As at 30 June 2011, the Group's unrecognised tax benefits were $13 million (2010: $13 million). All unrecognised tax benefits would affect the effective tax rate if recognised.

9 Stockholders' equity

The following sets out the number and par value of shares authorised, issued and outstanding as at 30 June 2011 and 2010:

	2011	2010
Common stock, par value $0.01		
Authorised	**500,000,000**	500,000,000
Issued	**360,595,240**	358,993,715
Stock held by Employee Benefit Trust	**(16,149,527)**	(15,672,452)
Outstanding	**344,445,713**	343,321,263
Preferred stock, par value $0.01		
Authorised, issued and outstanding	**600,000**	600,000

The following table outlines the changes in common stock issued during 2011 and 2010:

	2011	2010
Balance, 1 January	**359,118,666**	358,895,225
Exercise of stock options and warrants	**1,476,574**	98,490
Balance, 30 June	**360,595,240**	358,993,715

Notes to the Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2011 and 2010

Preferred stock
On 18 January 2007, Catlin Bermuda issued 600,000 non-cumulative perpetual preferred shares, par value of $0.01 per unit, with liquidation preference of $1,000 per unit, plus declared and unpaid dividends. Dividends at a rate of 7.249 per cent on the liquidation preference are payable semi-annually on 19 January and 19 July in arrears as and when declared by the Board of Directors, commencing on 19 July 2007 up to but not including 19 January 2017. Thereafter, if the stock has not yet been redeemed, dividends will be payable quarterly at a rate equal to 2.975 per cent plus the three-month LIBOR rate of the liquidation preference. Catlin Bermuda received proceeds of approximately $590 million, net of issuance costs, which were used to repay a $500 million bridge facility, a $50 million revolving loan, and for general corporate purposes. The preferred shares do not have a maturity date and are not convertible into or exchangeable into any of Catlin Bermuda's or the Group's other securities.

Treasury stock
In connection with the Performance Share Plan ('PSP'), at each dividend date, an amount equal to the dividend that would be payable in respect of the stock to be issued under the PSP (assuming full vesting) is paid into an Employee Benefit Trust ('EBT'). The EBT uses these funds to purchase Group stock on the open market. This stock will ultimately be distributed to PSP holders to the extent that the PSP awards vest. The Group has also purchased shares through the EBT that will be used to satisfy PSP and/or other employee share plan awards if and when they vest and become exercisable. During 2011, the Group, through the EBT, purchased 760,694 of the Group's stock, at an average price of $6.47 (£3.87) per unit. The total amount paid of $5 million is shown as a deduction to stockholders' equity. The cumulative cost of shares purchased though EBT of $105 million is shown as a deduction of stockholders' equity.

Warrants
In 2002 the Company issued 20,064,516 warrants to purchase common stock. Warrants may be exercised in whole or in part, at any time, until 4 July 2012 and are exercised at a price per share of $4.37. During 2009 warrants increased by 874,829 in relation to the Rights Issue pursuant to anti-dilution provisions. During 2011, 5,491,730 warrants to purchase common stock were exercised and settled net for 1,476,574 shares of common stock, leaving 1,420,985 warrants outstanding at 30 June 2011.

Dividends
Dividends on common stock
On 9 February 2011 the Board declared a dividend of 17.9 pence per share (28.8 cents per share), paid on 18 March 2011 to stockholders of record at the close of business on 18 February 2011. The total dividend paid for the 2010 financial year was 26.5 pence per share (42.5 cents per share).

Dividends on preferred stock
On 11 January 2011 Catlin Bermuda paid a dividend of $22 million to the stockholders of the non-cumulative perpetual preferred stock.

10 Employee stock compensation schemes

The Group has five employee schemes in place, of which the most significant ones are the Performance Share Plan ('PSP'), adopted in 2004. The Long Term Incentive Plan ('LTIP') was adopted in 2002 and the last awards were made in 2004. In addition, the Group also has three Employee Share Plans in place. The expense related to the Employee Share Plans is considered to be insignificant. These financial statements include the total cost of stock compensation for all plans, calculated using the fair value method of accounting for stock-based employee compensation.

On 10 February 2011 a total of 7,225,549 options with $nil exercise price and 9,903,369 non-vested shares (total of 17,128,918 securities) were awarded to Group employees under the PSP. Up to half of the securities will vest in 2014 and up to half will vest in 2015, subject to certain performance conditions.

The total cost of the plans expensed in the six months ended 30 June 2011 was $3 million (2010: $7 million).

11 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to common stockholders by the weighted average number of common shares in issue during the year.

Diluted earnings per share is calculated by dividing the earnings attributable to all stockholders by the weighted average number of common shares in issue adjusted to assume conversion of all dilutive potential common shares.

The Company has the following potentially dilutive instruments outstanding during the periods presented:

— PSP;
— LTIP;
— Employee share plans; and
— Warrants.

Income to common stockholders is arrived after deducting preferred stock dividends of $22 million (2010: $22 million).

Notes to the Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2011 and 2010

Reconciliations of the number of shares used in the calculations are set out below.

	2011	2010
Weighted average number of shares	**343,904,960**	345,845,084
Dilution effect of warrants	**–**	1,254,063
Dilution effect of stock options and non-vested stock	**–**	9,142,081
Weighted average number of shares on a diluted basis	**343,904,960**	356,241,228

Earnings per common share		
Basic	**$(0.64)**	$0.17
Diluted	**$(0.64)**	$0.16

Potentially issuable securities that would result in a reduction in loss per share if issued are not considered to have a dilution effect. In 2011, due to the loss incurred, no potentially issuable securities are considered dilutive. As a result, there is no difference between basic and diluted amounts.

12 Commitments and contingencies

Legal proceedings

The Group is party to a number of legal proceedings arising in the ordinary course of the Group's business which have not been finally adjudicated. While the results of the litigation cannot be predicted with certainty, management believes that the outcome of these matters will not have a material impact on the results of operations or financial condition of the Group.

Concentrations of credit risk

Areas where significant concentration of risk may exist include investments, reinsurance recoverable, and cash and cash equivalent balances.

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. Similar principles are followed for the purchase of reinsurance. The Group believes that there are no significant concentrations of credit risk associated with its investments or its reinsurers.

Letters of credit

The Group arranges letter of credit facilities to support its reinsurance business and for general corporate purposes.

As at 30 June 2011, the Group has access to the following letter of credit facilities:

— A three-year $650 million unsecured multi-bank facility available for utilisation by appointed members of the Group and guaranteed by the Company. As at 30 June 2011 $224 million letters of credit were issued under this facility. The facility has an expiry date of 31 December 2013.
— A bilateral facility available for utilisation by Catlin Bermuda collateralised by pledged financial assets. As at 30 June 2011 $138 million letters of credit were issued under this facility.
— A facility managed by Lloyd's, acting for the Syndicates. As at 30 June 2011 $7 million letters of credit were issued under this facility.

In addition, Catlin US has letters of credit amounting to $6 million issued for the benefit of state regulators and other parties.

13 Subsequent events

The Board of Catlin Bermuda approved a dividend of $22 million to the stockholders of the non-cumulative perpetual preferred stock. This dividend was paid on 19 July 2011.

The Board of Directors, on 3 August 2011, declared an interim dividend of 9.0 pence per share (14.7 cents), payable on 23 September 2011 to shareholders of record on 26 August 2011. The 2011 interim dividend represents a 4.7 per cent increase over the 2010 interim dividend of 8.6 pence per share (13.7 cents).

Management has evaluated subsequent events until 3 August 2011, the date of issuance of the financial statements.

Independent Review Report to Catlin Group Limited

Introduction

We have been engaged by Catlin Group Limited ("the Company") to review the interim financial statements in the Half-yearly Financial Report for the six months ended 30 June 2011, which comprises the Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Changes in Stockholders' Equity, Consolidated Statements of Cash Flows and related notes. We have read the other information contained in the Half-yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Directors' responsibilities

The Half-yearly Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-yearly Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

The interim financial statements included in this Half-yearly Financial Report have been prepared in accordance with accounting principles generally accepted in the United States of America.

Our responsibility

Our responsibility is to express to the Company a conclusion on the interim financial statements in the Half-yearly Financial Report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements in the Half-yearly Financial Report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers
Bermuda
3 August 2011

Statement of Responsibility

The Directors confirm that to the best of our knowledge:

- The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America;
- The Half-yearly Financial Report includes a fair review of the information required by the Disclosure and Transparency Rules ('DTR') 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- The interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board.

Stephen Catlin
Chief Executive

Benjamin Meuli
Chief Financial Officer

3 August 2011

Shareholder Information

Board of Directors
Sir Graham Hearne, Chairman
Stephen Catlin, Chief Executive
and Deputy Chairman
Benjamin Meuli, Chief Financial Officer
Guy Beringer
Bruce Carnegie-Brown
Jean Claude Damerval
Kenneth Goldstein
Robert Gowdy
Nicholas Lyons

Company Secretary
Daniel Primer

Registered Office
Canon's Court
22 Victoria Street
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Bermuda

2011 Interim Dividend
The 2011 interim dividend of 9.0 pence per share is payable on 23 September 2011 to shareholders of record on 26 August 2011.

Dividends relating to Catlin common shares are payable in sterling. Dividends relating to Catlin American Depositary Receipts ('ADRs') are payable in US dollars by the US depositary bank.

American Depositary Receipts
Catlin's American Depositary Receipts trade on the Over the Counter market ('OTC') under the following details:
Symbol: CNGRY
CUSIP: 149188104
ADR/common share ratio: 1:2
US ISIN: US1491881041
Underlying ISIN: BMG196F11004

Debt Investors
Particulars of the preferred shares issued by the Catlin Group are as follows:
Issuer: Catlin Insurance Company Ltd.
Securities: Non-Cumulative Perpetual Preferred Shares
Issue date: 18 January 2007
Redemption: Redemption on and after 19 January 2017 at the issuer's option
Nominal total: US$600 million
Dividend rate: 7.249% per annum for the first ten years
Dividend dates: 19 January and 19 July
Ratings: BBB+ Standard & Poor's; bbb A.M. Best

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